EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.31,017 • FINANCIAL TIMES 1989 — Wednesday December 6 1989 — D 8523A

ISRAEL
Coming to terms with a new order
Page 9

World News

Manila fears for economy as rebels fight on

The battle between rebel troops and army units loyal to Philippine President Corazon Aquino for control of Manila's main business district entered its fifth day, intensifying fears about the long-term damage inflicted on the economy. Page 22

Global aid urged

Development aid must become a more central political concern in the 1990s if the world is to cope with global issues such as the environment and AIDS, aid ministers from the OECD agreed. Page 22

Egypt border clash

Israeli troops intercepted and shot dead five heavily armed gunmen who crossed the border from Egypt in one of the most serious incidents on the frontier since Israel handed back the Sinai peninsula in 1982. Page 9

Tokyo poll boost

Japan's ruling Liberal Democratic Party, which is likely to call a general election early next year, received a powerful boost from an opinion poll. Page 9

Ortega contra move

President Daniel Ortega of Nicaragua proposed extending until December 31 the deadline for US-backed contra rebels to demobilise. Page 7

Red Army claim

The Red Army Faction, West German terrorist group, said it killed Mr Alfred Herrhausen, chief executive of the Deutsche Bank. Page 3

Singh names cabinet

Mr V.P. Singh, India's new Prime Minister, named 18 ministers to his cabinet but postponed announcing their departments. Page 9

Fresh Beirut clashes

Violence erupted in at least five separate places in Lebanon amid tension over the confrontation between Gen Michel Aoun, the Christian leader still occupying the presidential palace, and his Syrian-backed opponents. Page 9

Setback for Caracas

The ruling party in Venezuela, Democratic Action, has taken a heavy beating in state and local elections, losing at least eight of the 20 state governorships to opposition parties. Page 7

Tokyo loan charges

Japanese police said that four men, including the former secretary of a Japanese parliamentarian, have been arrested on charges of blackmailing officials of the Fuji Bank, the world's third largest, for Y500m ($3.45m). Page 9

Taiwan city clash

Police clashed with several thousand demonstrators in the southern Taiwan county of Tainan where the opposition Democratic Progressive Party alleges ballot rigging in a local elections. Page 9

Bogota crash clues

American investigators found evidence that an explosive device caused the crash of a Colombian airliner last week in which 107 people were killed - according to Colombian newspaper reports.

Sudan pact fails

Peace talks between Sudan's military government and its rebel foes in the Sudan People's Liberation Army have failed - according to peace talks chairman and former US president Jimmy Carter.

Metro clampdown

France is to increase tenfold the number of security staff on Paris commuter trains to combat an increase in violent crime.

Business Summary

GM enters talks on Hungarian investment

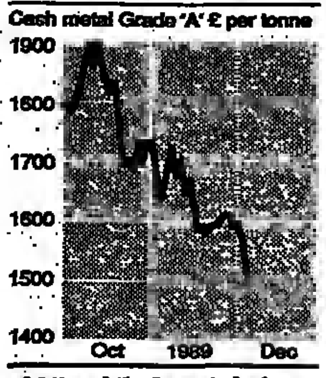
General Motors is negotiating with the Hungarian authorities on at least one project expected to lead to a substantial manufacturing investment by GM in the East European state.

An acknowledgement by the world's largest vehicle maker of discussions with the Hungarians strengthens the prospect of a wave of Western investment in Eastern Europe.

COPPER prices fell again on the LME yesterday. Cash metal closed at £1,518 a tonne, a fall of £50 and the lowest closing price since the middle of July. Commodities, Page 36

Copper

Cash metal Grade 'A' £ per tonne



USINOR Sacilor, French state-owned steelmaker, is to buy the tinplate manufacturing subsidiary of the Franco-British CMB Packaging for FFr1.5bn ($246m), creating the largest European tinplate producer. Page 22

DEFENCE: A possible compromise has emerged in the two-year-old dispute between London and Bonn over the choice of a radar for the £22bn ($34.3bn) European Fighter Aircraft. Page 22

WATER: The offer for sale of shares in the 10 water companies of England and Wales looked likely to be over-subscribed amid a last minute rush to meet this morning's deadline. Page 23

RENAULT and Volvo, French and Swedish car and truck makers, scaled back far reaching talks on a possible merger of their automotive operations. Page 23

US said it was prepared for a new era of reciprocal trade liberalisation and would accept clear and enforceable trade rules. Page 6

ITALIAN and Iraqi governments will seek today to end four difficult years for their commercial relations which culminated in the recent scandal over the supply of $3bn of unauthorised credits from the Atlanta branch of the Banca Nazionale del Lavoro. Page 6

ARNO Bohn, former marketing director of the ailing Nixdorf computer company, will become the next chief executive of Porsche, West German luxury sports car manufacturer. Page 23

INTEL Corporation of the US and NEC of Japan agreed to resolve outstanding issues in their microprocessor copyright and unfair trade dispute - which began five years ago. Page 26

FRANCE recorded a trade surplus of FFr2.2bn ($362m) in September after seasonal adjustments, a sharp turnaround in its trading performance after two months of substantial deficits. Page 8

TOKYO Stock Exchange found no evidence of insider dealing behind a surge in share prices ahead of the announcement of the planned big merger between Mitsui Bank and Taiyo Kobe Bank. Page 24

PORTUGAL: The part-privatisation of Companhia de Seguros Tranquilidade, leading Portuguese state-owned insurance company, raised record Government revenues. Page 24

Soviets reject Kohl unity plan as more barriers come down

By **David Marsh** in Bonn

ALL TRAVEL restrictions between East and West Germany and the two parts of Berlin are to be scrapped from next month, in a step likely to accelerate the two states' economic integration and speed moves towards some form of political union.

But the move came as Soviet Foreign Minister Eduard Shevardnadze flatly rejected West German Chancellor Helmut Kohl's German unity programme, saying parts of it were tantamount to issuing orders to East Germany.

The official Tass news agency said Mr Shevardnadze told West German Foreign Minister Hans-Dietrich Genscher that Mr Kohl's plan could only increase the turmoil in central Europe at a time when balance and consideration were needed.

"The Soviet side considers it unacceptable to dictate to the sovereign state of East Germany how it should develop its relations with the other German state," Tass quoted Mr Shevardnadze as saying. Mr Mikhail Gorbachev, the Soviet leader, repeated his opposition to an "artificially forced reunification" of the two Germanys during talks with Mr Genscher.

The two German Governments last night declared in East Berlin that both currency regulations and visa requirements affecting West German visitors to East Germany would be abolished from January 1.

The two are to set up a DM2.9bn ($1.6bn) "foreign currency fund" supplied mainly by DM2.15bn from Bonn. This will finance trips by the East Germans who have been flooding west after the opening of East German borders to its own citizens last month. The proceeds will be earmarked to improve infrastructure and tourism facilities in the East.

Mr Helmut Kohl, West German Chancellor, is to travel to Dresden on December 19 for talks with Mr Hans Modrow, the East German Prime Minister, on extending economic aid to the East. The summit is likely to focus on measures to set up what Mr Kohl last week called "confederative structures" between the two states as stepping stones to the West German goal of a full-scale federation.

Mr Rudolf Seiters, the Bonn Chancellery Minister, announcing the travel and currency breakthrough after talks with Mr Modrow, said travel between the East and West parts of Germany would now be free for the first time for 45 years.

The ending of currency regulations will sweep away a 25-year-old rule forcing visitors from the West to change a daily sum of D-Marks for East Marks at the artificial exchange rate of 1 to 1, compared with the free market rate in the West of 1 to 10 or more.

At present, visitors are compelled to change DM25 a day – for ordinary people in West Berlin and West Germany, a significant deterrent to trips to the East.

Together with the ending of visa requirements, the result is likely to be a sharp increase in inflows of people, cash and ideas from the West. The likelihood will also rise that the West German D-Mark, circulating in growing quantities in the East, will replace the unconvertible East Mark as East Germany's true currency.

Mr Modrow, who has emerged as the central figure in the badly weakened East German leadership after the weekend resignation of Mr Egon Krenz as Communist Party General Secretary, said last night that "completely new perspectives" in East-West German relations had now arisen.

Mr Modrow said East Berlin was now working on new laws to allow joint ventures and profit transfer by West German companies investing in the East.

Meanwhile, Volkswagen, the West German vehicle maker, said yesterday that it was discussing plans with the East German state company IFA to build small cars – possibly similar to the Golf and Polo models. The plans were discussed in Karl Marx Stadt (formerly Chemnitz) in the south of East Germany on Monday by Mr Carl Hahn, the Volkswagen chairman, who was born in the town before the Second World War.

Emphasising the meeting of minds, a statement issued by Mr Seiters and Mr Modrow in East Berlin last night affirmed the two sides' willingness to extend trade links, improve environmental co-operation and expand collaboration in transport, post and telecommunications.

Further reports, Page 3

Lighthearted revolution sours

By **David Goodhart** in East Berlin

THE mood of East Germany's hitherto peaceful, even lighthearted revolution has turned sour.

The lynch mobs may not yet be roaming the streets, but there is a thirst for revenge in the air as every hour brings forth a new, distasteful story of diverted funds and self-enrichment under the crumbling Communist regime.

"We now *know* that absolute power corrupts absolutely," says Stefan Heym, the dissident East German novelist.

It is not so much the padded lifestyle enjoyed by ex-party chief Mr Erich Honecker and his associates in the leafy suburb of Wandlitz where they were placed under house arrest yesterday; or the ostentatious Mercedes driven by Mr Wolfgang Vogel, the lawyer and broker of East-West prisoner swaps whose arrest on suspicion of "criminal blackmail" has been ordered by the public prosecutor's office.

More than high living as such, what really offends ordinary East Germans is the systematic abuses in the procurement, and above all the disbursement, of desperately needed hard currency: abuses by senior Communist officials that were described yesterday by the acting public prosecutor – only hours after the resignation of his predecessor, Mr Gunter Wendland – as "akin to the Mafia."

Foreign exchange, it now appears, was secured through shady arms and currency deals, and by secret sales of valuable works of art to the West – and it seems that a

Continued on Page 22

IBM to write off $2.3bn and cut workforce by 10,000 in US

By **Roderick Oram** in New York

INTERNATIONAL Business Machines said yesterday it would take a $2.3bn fourth quarter charge for restructuring actions designed to improve the flagging performance of its US operations.

The write-off will cover the cost of shedding 10,000 employees, or about 4.5 per cent of its US workforce, closing some plants, offices and development centres, and changing the way it accounts for investments in other companies and new technologies.

The actions, latest in a series of cost-cutting measures by IBM since the mid-1980s, were immediately criticised by some Wall Street analysts. They argued that the company needed to cut between 40,000 and 60,000 from its worldwide workforce of 387,000 to make a big difference to its profits.

IBM's stock price edged up $1¾ to $101 after the announcement and the company's plan to buyback another $4bn of its stock. Coupled with previous repurchases, the world's largest computer maker will have reduced its equity by $10.5bn, or some 15 per cent, since mid-1986.

From a 52-week high of $130, IBM's stock has sunk to a low of $96 as Wall Street began to appreciate the deterioration in IBM's performance during the second half of this year. Another round of restructuring was long anticipated.

IBM's business in Europe and Asia continued to grow at 8 to 10 per cent a year, but its US performance was considerably less favourable, Mr John Akers, chairman, told an analysts meeting yesterday.

Although its US business was growing for the first time in four years, "we've been disappointed with the degree of improvement." He said the problem was common to the computer industry, reflecting such factors as a slowing US economy and customers' cautious approach to capital spending.

The moves will cut some $1bn of annual costs from US operations, bringing them more into line with slow growing revenues. IBM said its profits will reflect most of the benefit next year and the full $1 a share in 1991.

The $2.3bn charge in the current quarter, equal to $2.25 a share, will reduce profits to around $1.50 a share, analysts estimate, from $4.02 a year earlier.

IBM, continuing its 40-year-old practice of no forced layoffs, said the job losses would come from voluntary early retirement and natural attrition. The programme will cost some $500m and reduce its US workforce to 206,000, down 37,000 since 1985.

The remaining $500m of the charge is for changes in accounting practices. It will, for example, reduce the depreciation period of its investment in other companies. This will more accurately reflect the shorter time it is taking IBM to develop and market new products.

EC reaches accord on integration of aviation market

By **Tim Dickson** in Brussels

A SURPRISE agreement on sweeping reforms in air transport aimed at creating a single EC aviation market by the start of 1993 was reached yesterday by European Community Transport Ministers.

The accord – which holds out the real prospect of cheaper fares and more varied services for European air travellers in the 1990s – involves a firm political commitment by ministers to abandon most of the anti-competitive restrictions currently imposed by Governments.

Yesterday's deal was a notable coup for the hitherto lacklustre French presidency of the EC, in particular Mr Michel Delebarre, the French Transport Minister. The breakthrough in the highly sensitive airlines sector was also being seen as providing a badly needed boost to the process of market integration in other areas.

Mr Delebarre's achievement was to persuade the clear majority of his colleagues to put their names to a deadline for the removal of three significant barriers to competition in the air transport field.

● By 1 January 1993 they have agreed to eliminate the notorious Government to Government capacity-sharing arrangements which guarantee each airline a certain percentage of the traffic on a route. The current position (negotiated under the first EC deregulation package at the end of 1987) is that bilateral deals of this kind can only guarantee 40 per cent of the seats on a route, though this will fall to 25 per cent in two stages ending in November 1992.

● The Council of Ministers also accepted the key principle of "double disapproval" for new fares as "an objective" to be attained by 1 January, 1993. At present those airlines wanting to offer cheap fares can be thwarted by the veto of just one of the governments involved in the bilateral approval procedure – in future new fares would only be blocked if both were to refuse.

● Last, but not least, the member states have in effect endorsed a vital principle advanced by the European Commission that governments should not discriminate against airlines provided they meet all the relevant safety

Continued on Page 22

Thatcher fends off challenge to leadership

By **Michael Cassell**, Political Correspondent

MRS Margaret Thatcher, Britain's Prime Minister, last night secured a comfortable victory in the first challenge to her leadership of the Conservative Party, despite a respectable performance by her unwilling opponent, Sir Anthony Meyer.

In scenes of high drama at the House of Commons, it was announced shortly after the ballot closed that Mrs Thatcher had won the votes of 314 of the 374 Members of Parliament eligible to vote. Sir Anthony polled 33 votes and there were 24 spoiled ballot papers. Three MPs failed to vote.

Mrs Thatcher's supporters at once emphasised that her challenger had failed to significantly swell the known ranks of critics of the Prime Minister among Tory MPs. One Cabinet minister described the votes against Mrs Thatcher as coming from "the same old crowd" and Mr Kenneth Baker, the party chairman, described the outcome as a "splendid" result.

Tory loyalists hailed the result as an overwhelming endorsement of her leadership of the the country, which the Prime Minister will interpret as a personal vote of confidence at a time when the party faces a shaky electoral future.

Opponents within the party, however, were claiming that with 60 MPs failing to cast their vote in favour of the Prime Minister, Sir Anthony had put up a remarkably good performance which, it was hoped, would convey a message to Mrs Thatcher about the need for a change in leadership style and in some policy areas.

There were regrets that no stronger candidate had come forward and they acknowledged that Mrs Thatcher's opponent had not managed to flush out many more than the well identified numbers of disenchanted and critical MPs who had repeatedly expressed their opposition to the Prime Minister's style and policies.

Sir Anthony refused to interpret the result, which he claimed was "about the middle of the range". He added: "Clearly, on a vote like this, she is not going to step down".

Mr George Younger, the former Defence Secretary who acted as Mrs Thatcher's campaign manager in the run-up to the vote, said the result was a "most remarkable achievement" after 15 years as party leader and more than 10 years as Prime Minister. He said it would be "stretching it" to interpret the result as anything more than a resounding vote of confidence.

Although Mrs Thatcher's supporters were pleased, there was continuing anger that the contest had taken place at all, with many MPs believing that, irrespective of the final result, it will inflict further, short-term damage on the party's standing. Calls for a change in the leadership contest rules, which need only a proposer and a seconder to trigger a contest, are certain to intensify.

The opposition parties will nevertheless use the contest and its result to show that Mrs Thatcher now faces a significant and growing number of internal dissidents who will attract greater support for her replacement over the next twelve months. Even so, Mr Neil Kinnock, the Opposition leader, last night declined to comment on the outcome.

Britain to oppose conference on monetary union, Page 2

Bush rings Downing St

By **Michael Cassell**, Political Correspondent, in London

US PRESIDENT George Bush yesterday attempted to prevent British Prime Minister Margaret Thatcher from appearing increasingly isolated over the issue of closer European integration.

In a highly unusual intervention, the President telephoned Mrs Thatcher at her Downing Street official residence to deny suggestions that, in urging "continued and intensified efforts" to integrate within the EC, he had distanced himself her standpoint.

The move came as Mrs Thatcher prepared to resist proposals for an EC Social Charter and closer monetary union at this week's European summit meeting.

Mr Bush's remarks, made during his briefing to Nato leaders after his meeting with Soviet President Mikhail Gorbachev, were widely interpreted as damaging to Mrs Thatcher, who appeared surprised at the time, saying that they would require study before she could responded.

Mrs Thatcher flies to Strasbourg on Friday for what promises to be another EC summit at which she is likely to emerge isolated over the

Continued on Page 22

MARKETS

STERLING
New York lunchtime:
$1.569
London:
$1.5705 (1.5635)
DM2.79 (2.785)
FFr9.5275 (9.51)
SFr2.4975 (2.5025)
Y225.75 (224.5)
£ Index 86.4 (86)

GOLD
New York: Comex Feb
$408.6
London:
$404.0 (405.75)

N SEA OIL (Argus)
Brent 15-day Jan
$18.975 (19.225)

Chief price changes yesterday: Page 28

DOLLAR
New York lunchtime:
DM1.778
FFr6.07
SFr1.5905
Y143.75
London:
DM1.776 (1.7805)
FFr6.065 (6.08)
SFr1.5985 (1.5995)
Y143.7 (143.55)
$ Index 68.9 (same)
Tokyo close: Y143.68

US LUNCHTIME RATES
Fed Funds $8\frac{1}{2}$%
3-mo Treasury Bills:
yield: 7.793%
Long Bond:
$102\frac{23}{32}$
yield: 7.874%

STOCK INDICES
FT-SE 100:
2,327.5 (+24.1)
FT Ordinary:
1,836.8 (+13.8)
FT-A All-Share:
1,160.92 (+0.9%)
New York lunchtime:
DJ Ind. Av.
2,752.36 (-1.28)
S&P Comp
350.79
Tokyo: Nikkei
37,494.17 (+190.3)

LONDON MONEY
3-month interbank:
closing $15\frac{5}{16}$ ($15\frac{3}{16}$)
Liffe long gilt future:
Mar $90\frac{11}{32}$ ($90\frac{3}{16}$)

MARKET REPORTS: CURRENCIES, Page 46, BONDS Page 29
COMMODITIES, Page 36, EQUITIES Pages 37 (London), 48 (World)

CONTENTS

Old loyalties die hard as Nigeria prepares for 1992 elections

"We must create a new set of values, a new set of political attitudes," says President Babangida, who has mounted a determined effort to avoid massive corruption and ballot-rigging that has toppled Nigeria's past civilian regimes Page 9

Brittan to probe Rover valuation in EC inquiry

By Lucy Kellaway in Brussels

SIR Leon Brittan, European Commissioner in charge of competition said yesterday that he would be looking into the alleged undervaluation of Rover as a part of the Commission's inquiries into the sweeteners granted by the UK Government to Rover last year.

In his first public statement on Rover since the disclosure last week that hidden financial sweeteners of £38m had been provided by the UK government to British Aerospace, Sir Leon referred to his task as "disagreeable," but said "obviously its my duty to do it, and I will do it fairly, just as I would if any other country were involved."

He made it clear that the Commission was attaching great importance to the matter, but declined to speculate on the outcome of the enquiry.

"This is something that is being taken seriously by the Commission, looked at thoroughly and carefully, and that no advance decisions of any kind have been made or will be made until all that has gone through – and that will take time."

Sir Leon said that the Commission would look at all aspects of the deal relvant to the amount of aid granted, but declined to say which parts Brussels would focus on, until he had seen the relevant information.

"We're going to look at the whole of the deal, in so far as it was the basis of discussion with the Commission when the matter was being negotiated," he said.

Correction

Brussels and BAe

The European Commission is hoping to reach a decision by the end of the year over whether to ask British Aerospace to repay part or all of the £38m of secret financial concessions granted in the Rover takeover deal, not the full £547m subsidy originally approved by the Commission, as was incorrectly stated in yesterday's Financial Times.

OPPOSITION GAINS CONCESSIONS IN ONE OF CZECHOSLOVAKIA'S TWO REPUBLICS

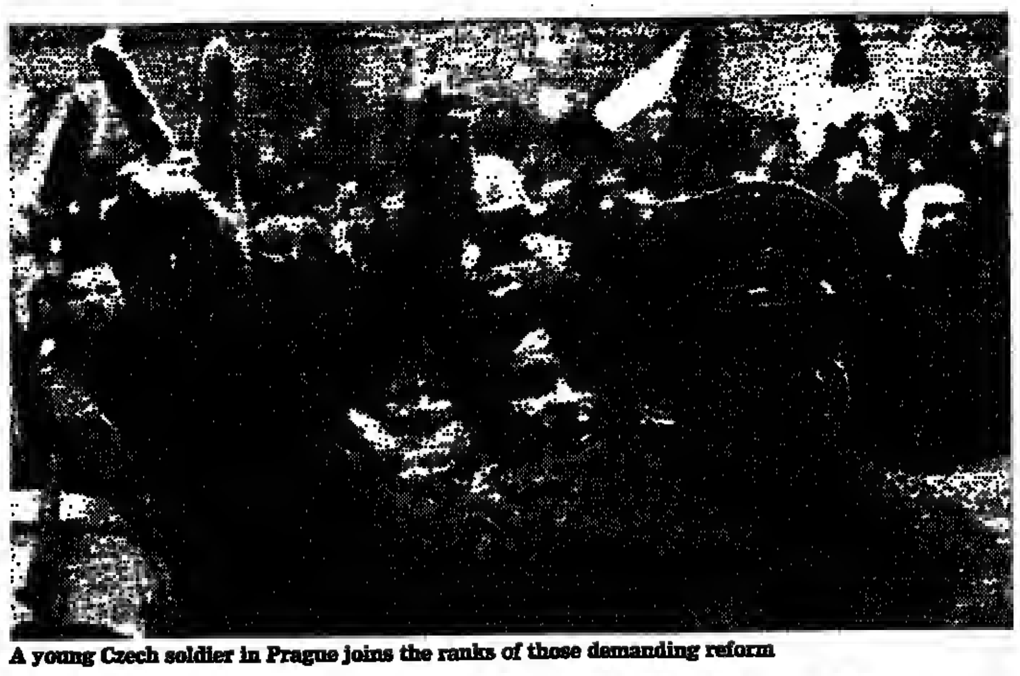
Non-Communists dominate Czech cabinet

By Leslie Colitt in Prague

NON-COMMUNISTS gained a majority of cabinet posts in the newly-formed government of the Czech republic (Bohemia and Moravia) for the first time in Czechoslovakia since the Communist takeover in 1948.

The new government announced yesterday was a milestone for the opposition little more than two weeks after a student demonstration on November 17 rocked the foundations of the Communist leadership.

The non-Communists gained nine seats in the 17-member cabinet of Mr Frantisek Pitra, the Prime Minister, although the key post of Internal Affairs was retained by the Communist party. The Socialist and People's parties were each given a deputy prime ministership and one other post, while five non-party members were also appointed.



A young Czech soldier in Prague joins the ranks of those demanding reform

The concessions made to the opposition by Mr Pitra in the Czech republic were far greater than his federal counterpart, Mr Ladislav Adamec, was willing to make. Mr Adamec's Communist-dominated Government formed last Sunday was flatly rejected by the opposition Civic Forum, which has threatened a general strike next Monday if the opposition is not given greater representation.

Mr Bohumil Kuchera, chairman of the increasingly independent Socialist party, said Mr Pitra's Government reflected the "reality" of the Czech republic which was in the vanguard of the political upheaval sweeping the country. He indicated that Mr Adamec was likely to give extra cabinet posts in the federal Government to non-party members from Slovakia.

Mr Kuchera also told the FT that the political future of Mr Gustav Husak, the controversial Czechoslovak President and former party leader, would be decided today or tomorrow.

His resignation has been demanded repeatedly by the opposition. All parties are to meet on the question and Mr Kuchera said they were likely to reach a consensus – that President Husak had to resign – in order to maintain "calm in the country."

President Husak, who assumed control of the Communist party from Mr Alexander Dubcek after the Soviet-led invasion in 1968, is extremely unpopular among his fellow citizens.

Before a decision can be taken on removing Mr Husak, however, agreement must be reached on his successor who has to take office within 14 days under the constitution.

Mr Kuchera indicated that Mr Dubcek was a leading candidate to succeed Mr Husak in what would be one of the great ironies of post-war European history.

Much depended on whether Mr Dubcek wanted the post and of the attitude toward him of the new Communist leader, Mr Karel Urbanek. Communist delegates dominate the Federal Assembly (parliament) which elects the President. For its part the Socialist Party will decide its definitive stance on Mr Dubcek at a meeting of its governing central committee.

Mr Kuchera said a complicating factor was that a Slovak, Mr Husak, had held the post of President for 15 years and that Mr Dubcek was also a Slovak. This, however, did not appear to be an insurmountable barrier as the normal practice in Czechoslovakia was that when a Slovak was President a Czech was Prime Minister.

Adamec and Havel hold discussions

By John Lloyd in Prague

MR LADISLAV Adamec, the Prime Minister, yesterday held talks with Mr Vaclav Havel, leader of Civic Forum, on the composition of the new government, announced at the weekend, which has attracted protests from Civic Forum because of its continuing domination by Communists. The talks are to continue today.

However, there are strong indications that the Communist Party rank and file is also unhappy with the shape of the new government. The Prague city party committee met yesterday and said it rejected the membership of the government.

Mr Zdenek Caha, a member of the council, said: "We will try to change the leadership. Our members have stopped believing them."

Members of the programme committee and the strike committee at Czechoslovak Television have tabled a series of demands to the service's new director, Mr Miroslav Pavel, and warned that they will strike from noon on Friday if they are not met.

The demands are for objectivity; for the abolition of the Communist Party organisation in television; for the abolition of the militia force in television; for extra time given to the students and Civic Forum; and for the editor of TV News to be a non-party person.

EC to seek voluntary restraint agreement on Japanese car sales

By Guy de Jonquières in London and Lucy Kellaway in Brussels

THE European Commission is expected today to renew its efforts to draft policy proposals for dealing with sales of Japanese cars in the Community after 1992.

The issue, one of the politically most controversial aspects of the EC's single market programme, has already been discussed several times by the 17-member Commission.

However, continuing disagreements between EC governments and the Commission's own members have meant that little progress has been achieved to date.

The EC needs to resolve the matter before 1992 because imports of Japanese cars into five member countries, Britain, France, Italy, Portugal and Spain, are at present subject to national restrictions. These curbs are incompatible with a unified internal market.

Initially, Mr Martin Bangemann, the industry commissioner, suggested that the national restrictions should be lifted and the EC car market opened immediately to unfettered competition from Japan.

However, under pressure from several European governments and motor manufacturers, he appears since to have accepted that the EC should seek to negotiate with Japan a voluntary restraint arrangement which would limit overall Japanese car sales to the Community during a transition period of several years.

It would seek to ensure a moderate rate of Japanese sales growth in countries with markets currently protected by national restrictions. The arrangement is envisaged in a position paper submitted to the Commission by Mr Bangemann in collaboration with Mr Frans Andriessen, the external affairs commissioner, and Sir Leon Brittan, the competition commissioner.

However, the paper leaves open vital questions, including the length of the proposed transition period, the ceilings to be imposed on the volume of Japanese car sales and the rates of growth the Japanese would be allowed to achieve.

The debate is further complicated by disagreements between EC governments over how to treat cars assembled in the Community by Japanese manufacturers. Nissan is already making cars in Britain, and Honda and Toyota also plan to build assembly plants.

France and Italy want vehicles made in these plants to be counted as Japanese imports unless they meet specified levels of local content. The commission has so far ruled out applying any EC local content requirement, on the grounds that it would violate international trade rules.

Officials in Brussels were cautious yesterday about the prospects for rapid decisions. If the Commission is able to agree a statement on its position today, it is expected to be general in tone and to contain few, if any, detailed proposals.

Britain set to oppose conference on monetary union

BRITAIN will argue strongly against the holding of a treaty-revising conference on Economic and Monetary Union, when European Community leaders hold their summit at the end of this week in Strasbourg.

But if an Inter-Governmental Conference (IGC) is held, [as the French Government wishes], the British Government will certainly take part.

These points were made yesterday by Mr Douglas Hurd, British foreign secretary, after talks in Paris with Mr Roland Dumas, the French foreign minister. French President François Mitterrand, as chairman of the Strasbourg summit, is expected to call on his colleagues to set a date for an IGC during the second half of next year, with the explicit commitment to move ultimately all the way to Economic and Monetary Union.

"We are strongly in favour of stage one of the Delors Plan for Economic and Monetary Union," said Mr Hurd yesterday. "But stages two and three cannot automatically follow on from stage one; and since stage one only starts on July 1 next year, we think it is not sensible to start an Inter-Governmental Conference as early as has been proposed."

In the scheme set out in the Delors Plan, stage one is a period of closer inter-governmental co-operation. In stages two and three, the EC would move to stricter monetary integration, with fixed parities and eventually a single currency.

"Stage one is already quite a big exercise," said Mr Hurd. "But if an IGC is called, we shall be among those present.

"The argument is not between those who want to remain immobile and those who want to move forward, but between a more liberal route and what we see as a more centralised, bureancratic route."

Mr Hurd indicated that the main stress of the British Government's position at the Strasbourg summit would be on the completion of the single market, scheduled to be fully liberalised by 1993. He said he had given Mr Dumas a list of 10 aspects of the single market, on which the British Government would be pressing for urgent progress.

"We are in the middle of a big programme of integration," said Mr Hurd. "The first thing is to complete that."

Mr Hurd took a cautious view of the question of German re-unification.

"The crucial step is free political institutions in East Germany. Then you would have two German states side by side, with co-operation between them.

"After that we could consider other steps; but how and when needs to be worked out with good care."

Hurd: favours stage one

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiolettstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Telex 416193) represented by B. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia), Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (01) 13 44 41, Fax (01) 935335.

Summit sets ambitious timetable for pact limiting conventional forces in Europe

By Judy Dempsey in Vienna

PRESIDENTS George Bush and Mikhail Gorbachev, buoyed by the success of their Malta summit, have spoken optimistically about a new treaty limiting conventional forces in Europe which could be ready to sign by 1990. For the hard-pressed Nato and Warsaw Pact diplomats in Vienna whose job it is to work out the details, meeting the timetable set by their political masters is an exhausting prospect.

If they are successful, as looks increasingly likely, the talks could transform the military face of Europe, with both blocs making deep cuts in their conventional arsenals and limiting the prospects for a surprise attack. But the arms negotiators at the Vienna talks on Conventional Forces in Europe (CFE) face the task not only of bridging gaps between the two alliances, but also of papering over differences within both blocs.

The startling events in Eastern Europe of recent weeks have thrown into sharper relief a whole series of individual nations' concerns, notably apprehension on both sides of the Iron Curtain about the implications of a united Germany.

WARSAW PACT

TIME WAS when the Warsaw Pact diplomats' weekly "caucus meetings" in Vienna were rarely disturbed by dissent. These days, however, the sessions are long on "creative tension".

The first prohlam is Moscow's continuing insistence that "tactical" aircraft be excluded from the CFE talks; a view which the Poles and Hungarians oppose and to which Nato strenuously objects.

Moscow maintains that it will always require certain types of purely defensive aircraft to protect its borders.

But over the past month, in an apparent softening of its position, the Soviet delegation has succumbed to pressure and has divided aircraft into a larger number of categories and said that some will be included in future reductions.

While it still wants special arrangements to exclude purely air-defence fighters, it is now willing to discuss its 2,000 or so training aircraft, which are also capable of combat.

At the same time, however, it still wants to exclude its land-based naval aviation on the grounds that naval forces are not part of the CFE mandate. It also remains reluctant to include its 500 medium and long-range bombers.

The resurgence of "national concerns" is particularly evident in the positions of Poland and Bulgaria.

During the closing stages of the most recent round, the Polish delegation contributed little to the negotiations: it was uncertain abont its position following the appointment of a Solidarity-led Government in Warsaw.

In contrast to the Hungarian delegation which receives instructions from its Foreign Ministry and gets considerable latitude, the Poles are answerable both to the liberal-minded Foreign Ministry and to the conservative Ministry of Defence – adding further confusion. But, in what could be a fascinating harbinger of things to come, Warsaw is making its voice heard over the issue of "low-strength units" – secondary Soviet units kept well below capacity in peacetime, broadly comparable to "storage units" on the Western side.

Under current Warsaw Pact proposals, these units would essentially be deployed in the eastern part of European Russia, and they would be staffed in peacetime up to 30 per cent of the manpower needed in wartime.

The West, eager to secure East bloc assent to its proposals on the "zones" into which central Europe will be divided, has offered the Soviet side what it describes as an important concession on low-strength units.

Nato suggests that the Soviet Union could locate these units much nearer its Western borders – around the Baltic, in Byelorussia and in the Carpathian – but only if they are genuinely "low-strength", limited in peacetime to 5 per cent of wartime manpower.

The Poles in particular seem reluctant to accept the latter stipulation.

In principle, the Poles would like all Soviet forces out of Poland. But as the spectre of German reunification haunts them, they are increasingly reluctant to agree to such low peace-time troop numbers.

"It is the fear of the Bundeswehr as well as Nato's considerable storage units, which has made the Poles very anxious about their own future security interests," commented an East European diplomat.

And on the issue of tanks, Bulgaria has taken a stand. Precisely because Turkey wants light battle tanks exclnded from the negotiations, the Bulgarians insist these be included – citing a Turkish threat to their borders.

NATO

JUST AS Warsaw Pact countries seek to protect their own national interests, Nato countries are working towards resolving some fundamental differences which last month prevented the alliance from presenting its draft agreement in Vienna.

From Nato's point of view, there are outstanding problems over four issues: battle tanks, combat helicopters, the definition of the CFE mandate and inspection of each alliance's arms production plants.

● In its proposals outlined last March, Nato included only "main battle tanks" in any future reductions – prompting strong criticism from the Warsaw Pact, which argued that the West could compensate for any reductions in its main tanks by modernising its light ones. Britain (and also Turkey, because of its geographical location) resisted any compromise which would include light tanks.

However, in recent weeks Nato has appeared to be willing to include light battle tanks in reductions - but in a new category sandwiched between heavy armoured combat vehicles and main battle tanks.

A senior Western negotiator said the intra-Nato prohlems over tanks could be thrashed out at a meeting in Brussels on Thursday.

● Combat helicopters. When Nato, following the summit in Brussels last May, presented its proposals for including combat helicopters at the Vienna talks, it faced a problem of definition.

It initially tried to apply the simple principle of "look alike, count alike" hut in practice found that this would commit the West to eliminating more helicopters than it had originally intended.

Both sides are now nearing agreement on a Warsaw Pact-inspired definition of a combat helicopter, a definition which is said to be more technical and less vague than Nato's original conception.

● A further reason why Nato failed to present a draft treaty last month was Greek-Turkish differences over the precise wording of the CFE mandate.

Turkey maintains that the port of Mersin – from which it launched its 1974 invasion of Cyprus, following a short-lived coup on the island by the military junta ruling Greece – should be excluded from future reductions, while Greece wants it included.

● Right of Inspection. Among others, France would object to any agreement which would envisage allowing either side to inspect each other's armaments production units.

"This is a sleeping issue," in the words of one Nato diplomat. But, like that other issue that "slept" for so long – the possibility of German reunification – it is considered likely to figure high on the Vienna agenda in the near future.

Red Army Faction says it killed Herrhausen

By David Marsh in Bonn

THE Red Army Faction (RAF), the West German terrorist group, yesterday said it killed Mr Alfred Herrhausen, chief executive of the Dentsche Bank, last week. The police hunt for the murderers continued without throwing up discernible new leads.

The fedsral prosecutor's office in Karlsruhe said that an RAF letter sent to news ageocies and a local newspaper was "absolutely authentic".

The statement arrived on the eve of Mr Herrhausen's funeral in Frankfurt today. In what is virtually a state occasion, Chancellor Helmut Kohl is due to deliver, at the request of the Herrhausen family, a 15-minnte address at Frankfurt cathedral.

The RAF, in the chilling language familiar from past declarations of responsibility for executions of leading German industrialists and bankers, said Mr Herrhausen was killed last Thursday because of his role as "Europe's most powerful economic leader".

As controversy continued in West Germany over whether his death could have been avoided through stricter surveillance, police on Monday night raided a housing hlock in Darmstadt in search of the killers. The prosecutor's office, co-ordinating the investigations, said it was "without result".

The respect enjoyed hy Mr Herrhausen in the Soviet Union was underlined yesterday hy news that Moscow's Plechanow College is offering a scholarship in his name to support studies on German-Soviet economic relations.

The RAF letter said that Mr Herrhausen's armour-plated Mercedes was blown up with what was described as a "home-made" mine. It said the Dentsche Bank's history showed "blood traces from two world wars and the exploitation of millions".

Tha letter called for all imprisoned RAF terrorists to be brought together in a single unit and said that the "completely changed international situation" made necessary the start of a new phase in the "revolutionary process".

French trade back in the black during September

By George Graham in Paris

FRANCE recorded a trade surplus of FFr2.2bn (£231m) in Septemher after seasonal adjustments, a sharp turnaround in its trading performance after two months of substantial deficits.

The improvement reflects an increase in exports and a large drop in imports, hut economists cautioned that the figures also appeared to show up a prohlem in the seasonal adjustments applied to correct the normal variations from month to month.

After these seasonal adjustments, exports rose hy FFr2.2bn to FFr96,4bn, while imports plunged by FFr9.3bn to FFr94.2bn. Trade in manufactured goods showed a small surplus of FFr838m, after a deficit of FFr10.1bn in August.

But economists said the figures still put France in line with the prudent forecast of Mr Pierre Bérégovoy, the Finance Minister, of a FFr40bn-FFr50bn deficit for the full year.

"With a deficit of FFr32bn in the first three quarters, and a trend of around FFr4hn a month, we are oo target for our forecast of FFr44bn," said Mr Alain Guhion, an economist at the OFCE forecasting body.

Closer analysis of the trade figures suggests, however, that the seasonal adjustments may he distorting the picture of France's trading performance.

Both this year and in 1988, the trade figures showed a good result in June, a sharp decline in July, a catastrophe in Angust and a dramatic improvement in September.

Some governmeut economists believe that there may have been a change in the way companies behave which could help to account for these sharp swings: with fewer factories closing for August, imports of raw and semi-finished goods may now remain stronger that month than in the past, while September may no longer see the same surge in imports as companies stock up again after a summer hreak.

This change in habits is relatively recent, while the seasonal adjustments are calculated over a 10-year period.

French trade statistics are, in any case, subject to erratic swings according to the sales of Airhus passenger aircraft. September saw 10 Airhus sold for FFr2.8bn; August only six change hands for FFr1.7bn.

● The Government yesterday launched a campaign to improve the competitiveness of FFr173hn per year turnover clothing industry, writes William Dawkins in Paris.

Mr Roger Fauroux, the Industry Minister, will be talking to employers and unions over the next few months to see how the state can further help improve training, modernisation and investment in the industry.

The industry's trade deficit fell last year to FFr8.2hn, against FFr8.6bn in 1987, but still needs to do more to improve the speed at which it can hring out new designs against foreign competition, says a report commissioned by Mr Faroux.

W German unemployment rise reflects tide of immigrants

By David Marsh in Bonn

HIGH IMMIGRATION from East Germany led to a sharp rise in unemployment in West Germany last month, overshadowing news yesterday of a buoyant 3.3 per cent year-on-year rise in gross national product in the third quarter.

Mr Heinrich Franke, president of the Federal Labour Office, said the unemployment increase to 1.95m – up hy 76,000 from October – was unusually "drastic". This reflected above all a near douhling to 120,000 in unemployed emigres from East Germany.

Last month, 133,429 East Germans came to settle in the Federal Repuhlic, taking the 11-month total to just over 300,000. This means that the previous annual record influx from East Germany – 331,000 in 1953 – is likely to be exceeded this year. Counting newcomers from East Germany, the Soviet Union and other parts of Eastern Europe, total ethnic German immigration this year will amount to 700,000, more than 1 per cent of the West German population.

The unemployment rate last month rose to 7.6 per cent from 7.3 per cent in October. However, last mooth's total remained 141,600 lower than in November 1988, when 2.09m people were out of work, or 8.1 per cent of the employed labour force. Government officials pointed out that last month's unemployed total was still the lowest November figure since 1981.

Separate figures from the Federal Statistics Office in Wieshaden, meanwhile, show that the country is still on course for overall economic growth of 4 per cent this year. Compared with the second quarter this year, the economy grew on a seasonally adjusted basis hy an unusually strong 1 per cent. The 3.3 per cent GNP rise over the third quarter of 1988 compares with year-on-year increases in the first and second quarters respectively of 4.4 and 4.9 per cent.

Strong export demand and hnoyant investment continued to fuel the economic upswing. Exports of goods and services showed a real rise of 9 per cent in the third quarter against the same period last year, with imports up only 4.2 per cent. A fnrther boost to GNP came from West Germans' increasing income from foreign portfolio investment.

Companies' capital expenditure went up hy 7 per cent in the third quarter, with private consumption showing a much more subdued rise of 1.1 per cent. The contribution to GNP from public sector consumption showed a slight fall, reflecting the more restrictive budgetary stance this year.

Bert Lea, Sue Lloyd, Rasputin and Eeg.

of

WORLD TRADE NEWS

Italy and Iraq seek to end dispute over naval ships

By John Wyles in Rome

THE Italian and Iraqi governments will seek today to end four extremely difficult years for their commercial relations which began with an Italian embargo on the delivery of 11 naval ships and culminated in the recent scandal over the supply of $3bn of unauthorised credits from the Atlanta branch of the Banca Nazionale del Lavoro.

Italian officials believe the ships problem can be settled today after months of negotiations during which Rome has acceded to virtually every Iraqi demand, from credit terms to additional supplies of military equipment.

Baghdad had paid half of the $2.7bn cost of the ships contract when Italy decided in 1986 to halt deliveries as part of a tighter embargo on arms sales to both sides in the Iraq-Iran war. By that time only a naval support vessel and a floating dock had been delivered by Fincantieri, the state shipbuilder, and all of the remaining vessels have been kept in Italy.

In retaliation, Iraq has suspended all payments since 1986, thought to be in the region of $2.6bn, on other contracts previously signed with Italian companies.

The Italian cabinet has recently endorsed an outline agreement in which repayments on the ships contract will be spread over 10 years with an initial four year grace period when interest payments will be fixed at Libor. Interest due since the embargo will be forgiven, a special $150m credit will be given with the appropriate technology for Iraq to construct a naval command and control system, and Italy will make a free gift of the Saetta, a prototype for a series of fast attack vessels.

Rome has also agreed in principle that Agusta, the state-owned helicopter manufacturer, can go ahead with $250m contracts, first signed in 1983 and 1986, for the supply of 10 naval helicopters.

Turks win Kuwaiti power contract

TURKISH contractors have reached agreement on two contracts valued at a total of around $576m – civil engineering works for the massive Subiya thermal power station scheme in Kuwait, and a hydrocracker for a domestic refinery near Izmir, Jim Bodgener reports from Ankara.

The first deal, between Turkey's BMB-United Engineering and the Kuwaiti Ministry of Electricity and Water for the 2,400Mw Snbiya scheme, is worth $356m.

The deal includes exports valued at around $150m from Turkey of cement, steel, food and scaffolding. About 2,500 Turkish workers will be employed at any one time during construction.

The hydrocracker contract, valued at an estimated $220m has been awarded to a venture of Italy's Snamprogetti with Turkey's Tekfen, pending the arrangement of financing.

The turnkey contract for the Turkish Petroleum Refineries Corporation (Tupras) will be mainly financed by loans. Some 85 per cent of the project cost will come from the Italian state-supported Medio Credito Centrale and a commercial syndication arranged by American Express bank.

EC acts to tie up Lomé deal

THE European Community is offering 66 developing countries of the African, Caribbean and Pacific (ACP) group an extra Ecu100m (£73m) to try to remove the last obstacle to a new development aid accord, EC officials said yesterday, Reuter reports from Brussels.

Mr Roland Dumas, the French Foreign Minister, made the offer to the ACP on Monday.

The new funds bring the total package for the first five years of a new 10-year Lomé convention to Ecu10.8bn of aid plus Ecu1.2bn in cheap loans.

Officials said ACP states reacted favourably to the new offer but had not yet formally accepted it. The ACP last week accepted EC proposals for trade concessions, commodities compensation and other aspects of the pact.

France is understood to have put up half the extra cash. Italy, West Germany and Belgium contributed the rest.

The new offer still falls short of the Ecu15.5bn the ACP originally asked for, to cover inflation, rising populations and a new fund for economic reforms.

The ACP says it fears the EC will neglect it in favour of supporting changes in the East Bloc. The EC has pledged Ecu300m to Poland and Hungary for 1990 alone.

US ready for new era of trade liberalisation

By William Dullforce in Geneva

THE US said yesterday it was prepared for a new era of reciprocal trade liberalisation and would accept clear and enforceable trade rules covering all economic activity.

Mr Rufus Yerxa, the Deputy US Trade Representative, through his statement to the annual meeting of the General Agreement on Tariffs and Trade, put the US along side the European Community, Japan and other key trading nations which have renewed their commitment in the past two days to making a success of Gatt's trade-liberalising Uruguay Round. But, he warned that Gatt had not yet met US expectations.

Gatt rules were inadequate. Tariffs were still unacceptably high in many countries; non-tariff barriers to trade abonnded throughout the globe; and large areas of trade, such as agriculture and services, were covered inadequately or not at all.

As long as the rules were inadequate, countries would resort to their own methods for defending what they perceived as basic national interests.

However, the formal declarations of intent have hardly disguised the friction that persists as the Round enters its conclusive year. Mr Yerxa reacted strongly to the many complaints about "unilateralist" US action to impose its will in trade matters.

In a scarcely veiled reference to India, he said it was "a little dangerous" for countries with high tariffs and non-tariff barriers to indict the world's largest importer whose average effective tariffs were below 5 per cent.

Nor should a participant with a highly protectionist, unilateralist agricultural policy (the EC) be so anxious to condemn the policy of a country that was willing to accept sweeping reforms in agriculture.

Mr Rnbens Ricupero, the Brazilian who will chair the Gatt council next year, warned that indebted developing countries could not be expected to grant trade concessions that were not matched in the finance area. Brazil's ability to participate in the multilateral system would be impaired without credit and a solution to the debt problem.

- Austria may ask for a ruling against West Germany under Gatt rules, if Bonn carries out its decision to ban 212,000 Austrian lorries from using its roads from January 1. Bonn plans to retaliate against a restriction banning lorries producing more than 80 decibels of noise from using the main Austrian transit routes between 10 pm and 5 am.

Fujitsu defends heavy discount on computers

By Robert Thomson in Tokyo

FUJITSU, the Japanese computer maker, has defended a hefty discount given on two supercomputers leased to the Japan Atomic Energy Research Institute, despite US criticism of eupercomputer discounts that it says restrict competition in the Japanese market.

Fujitsu said the discount, which the company reckoned at around 27 per cent, was reasonable as a means of ensuring that the company won the contract.

The company admits to offering a base rate for the contract about 30 per cent below the scheduled fee for a three-year lease, and then giving the 27 per cent discount on top of that revised base rate.

However, the company said the contract for the supercomputers was for more than three years and so a lower base rate is justifiable. He would not specify the length of the contract, but said that it is "more than four years".

Supercomputers, along with satellites and lumber products, have been listed by the US as prodncte liable for action under the punitive Super 301 section of the US Omnibus Trade Act unless Japan's markets are liberalised.

The US has often complained about the generous discounts of up to 80 per cent offered on supercomputer contracts to Japanese academic institutions and condemned inadequate academic budgets for encouraging anti-competitive bidding by Japanese companies.

A Japanese trade official indicated yesterday that the Fujitsu contract with the institute, an affiliate of the State Science and Technology Agency, was within a reasonable range.

The eupercompnters will apparently be used in work related to nuclear fusion and analysis of reactor safety.

Fujitsu said clients are disgruntled if they do not receive a reasonable discount on supercomputer contracts, and that a discount was necessary in bidding for the institute's contract even though other supercomputer makers had not competed because they could not meet the specifications.

US window dressing cheers Caribbean garment producers

Canute James looks at revisions to proposals on textile quotas

CARIBBEAN garmant manufacturers, whose hopes of significantly increasing exports to the US were recently set back by legislators in Washington, have been encouraged anew by different signals from the Administration.

The region, which last year accounted for 10.5 per cent of US garment imports – bringing the hard-pressed economies earnings of $1.4bn – were hoping that proposals for dnty reductions on their shipments would have been accepted, giving them a more competitive edge in the US.

The proposals were thrown out by legislators who feared damage to domestic industry and the use of the Caribbean by producers in the Far East to get around quotas imposed by the US.

The Caribbean producers have taken comfort from the plan of Mr Ronald Sorini, chief US textile negotiator, who says he will try to reduce import quotas for textile and apparel from Taiwan and South Korea and increase those for Caribbean countries.

This promise by Mr Sorini – who is soon to start negotiations with Taiwan, Korea and Japan on quotas to replace those which expire at the end of this year – followed an undertaking by the White House to try to get legislators to reconsider preferential treatment for Caribbean garments. According to Mr Roman Popadiuk, a White House spokesman, President Bush has written legislators asking them to reconsider the proposals for reduced rates of duty on Caribbean garments.

Caribbean governments and garment producers have been arguing the case for preferential treatment, which has been denied them as a result of a six-yaar-old trade treaty between the US and 22 countries in the region.

Despite the concerns of the domestic US industry, several Congressmen proposed the reduced duties. The proposals were thrown out by their colleagues.

"The fact that these proposals were not accepted has been surprising and disappointing to the industry across the region," said Mr Peter King, vice president for international operations of Jampro, Jamaica's investmant promotions agency.

According to one Haitian exporter: "The sudden reversal of the proposed legislation in terms of garments has come as a sudden shock to the industry."

The Caribbean countries have made quick use of a special programme to re-export garments which have been assembled from fabric made and cut in the US.

In bilateral treaties with Washington, the countries are given "guaranteed access levels" for specified quantities of garments under the programme, with duty paid in the US only on the value added in assembly.

Caribbean producers are also allowed to ship agreed quantities prodnced from fabric sourced from other countries. It is the removal of proposals for preferential treatment of these two categories which has concerned the region's producers and government officials.

"We are particularly disappointed at the striking out of proposals for duty free access for what we ship under the guaranteed access levels," Mr King said. "It is also short-sighted to do away with proposals for a 50 per cent reduction in duty paid on imports which are produced from other fabric."

The Caribbean garmant industry has always argued that tha agreements which governed their access to the US market were valuable not only to the region, but beneficial to the US garment industry.

US companies, for which the garments were assembled, gained from lower production costs, they said, while producers of fabric had a ready market. Expanding the opportunities in the US for Caribbean garments would be mutually beneficial, they claim.

Some have pointed to a report by the US International Trade Commission which conclnded that growth in the Caribbean garment industry, based on the assembly of garments cut from US made fabric, had created 70,000 jobs in the US.

"In addition to the jobs in the US which our industry guarantees," Mr King said, "the Caribbean states retain 20 per cent of the value added. So for every $100 exported, only $20 remains in the Caribbean and $80 goes to the US industry."

US concerns over the growth of imports from the Caribbean, and what is perceived as a likely flood of cheaper imports, have been compounded by new investments from companies based in the Far East. These investors have found the region a better location to reach the US market.

Companies from Hong Kong and South Korea have invested just under $8m in several Caribbean states, attracted by lower production costs and lower freight rates to the market. The investments have also been driven by US quotas on imports from the Far East.

Caribbean garment exporters are expecting shipments to the US during this year to bring the region earnings of $1.7bn. This would amount to four-and-a-half times those of five years ago. The leading supplier last year was the Dominican Republic, which shipped a value of $550m, followed by Costa Rica with $260m, Jamaica with $220m and Haiti with $170m.

The Caribbean countries face a dilemma over the investments. They are keen on having the plants. The factories provide much needed jobs – mainly for women, among whom unemployment is more than 50 per cent. The exports also contribute to the parlous balance of payments of many Caribbean states.

But the US garment industry has attacked the presence of the Far East companies, suggesting that the investors are using the special access programmes as a back door to beat the restrictions.

Caribbean trade officials have rejected these arguments, pointing to the relatively small foothold which the region's industry has on the US market. They stress that 90 per cent of what they ship there comes under the programme based on fabric made and cut in the US.

Chile puts central bank beyond political control

By Robert Graham, Latin America Editor, in Santiago

THE Chilean military junta has named a new board for the country's central bank and given it statutes that allow the bank full autonomy.

The new status will take effect from Monday, only three days before Chile's first democratic presidential and parliamentary elections since 1970.

Chile is the first developing country to establish an independent central bank. Its creation, approved in August, is the last radical economic reform of the Pinochet regime and locks future governments into following the latter's market-oriented economy.

The new five-man executive board was to have been composed of ex-governors of the bank, but this was dropped in favour of greater conciliation to the opposition.

In what is seen as a big concession by the outgoing regime, two opposition members have been nominated – Mr Robert Zahler, a Christian Democratic Party economist who works for the UN Economic Commission for Latin America (ECLA), and Mr Juan Eduardo Herrera, an economist for the social democratic party PPD. These two parties represent the largest elements in the 17-party alliance backing the presidential candidature of Mr Patricio Aylwin.

Their acceptance and designation so close to the elections suggests the government has recognised that the Christian Democratic Mr Aylwin is the likely winner. Even so, the other board members reflect closely the outgoing government's free market philosophy and the present board, like the statutes, can only be altered via a two-thirds majority in the new parliament.

The scene is set for potential conflict with the next government since the bank will control money supply, use of reserves, as well as policy on exchange rates and Chile's $16.4bn foreign debt.

The $8bn worth of debt conversion deals done since 1985 have been conducted via the bank. The statutes permit the finance minister to attend meetings and have a 15-day veto on any policy.

The new president of the bank will be Mr Andrés Bianchi, now executive secretary of ECLA. The remaining directors will be Mr Alfonso Serrano, now the bank's vice-president, and Brigadier Enrique Seguel, Finance Minister, for whom a replacement will have to be found under the new administration.

Board members will hold office on a rolling basis to ensure against a future government altering its nature with its own nominees at one blow. Mr Serrano has a 10-year term.

The bank will have a 500bn peso ($1.7bn) capital. Last week some of its outstanding debt to the Treasury was cleared by the transference of almost $1.2bn from the copper price stabilisation fund.

Banks agree Mexican debt package

By Stephen Fidler

COMMERCIAL banks representing 90 per cent of Mexico's $48bn in medium and long-term bank debt have made commitments to a landmark debt package for the country.

A statement yesterday from the debt negotiators of Mexico and the banks – Mr Angel Gurria and Mr William Rhodes of Citicorp – said they had received replies from 345 of the 400 or so bank lenders to the country.

Banks representing some 8 to 10 per cent of existing exposure have agreed to commit new loans to the package, while the rest, in about equal proportion, have decided to swap their exposure for principal-reduction bonds and for fixed-rate 6¼ per cent bonds which will reduce the country's interest payments.

The new loan element falls short of the target of up to 20 per cent of commitments Mexico hoped for, but it is not clear whether failure to meet this target will be critical.

It had been thought that, if new loans were to fall short, official enhancements for the other two options might not be sufficient to go round. However, more banks than expected have chosen the principal-reduction bonds.

Warm western breeze for Europe

Peter Riddell examines President Bush's transatlantic view

PRESIDENT George Bush's strong endorsement of European integration, in his speech to Nato leaders in Brussels on Monday, was the culmination of a gradual shift in US policy this year.

Transatlantic relations used to be uncertain and wary at times during the Carter and Reagan presidencies, but Mr Bush is determined to establish closer and firmer links. The signs so far are that he is succeeding – in terms of mood, if not substance.

Even so, there have been misconceptions about what this means in practice, both in relation to the form of European integration and to future US relations with Europe.

Mr Bush is genuinely interested in European issues. The latest visit is his third to Europe within six months, and characteristically he has been in frequent contact with a wide range of European leaders. He talks to Chancellor Helmut Kohl of West Germany by phone roughly once a week.

Moreover, much to the pleasure of the European Commission, Mr Bush has seen Mr Jacques Delors for bilateral meetings on both his visits to Brussels.

Also, there has been a change of policy to match the shift of style towards close consultation. First, after early doubts, the Bush administration has decided to take a positive view of the creation of a single European market, to appear in 1992.

Second, as the pace of change in eastern Europe has accelerated, Mr Bush has increasingly seen the political value of an integrated European Community as a source of stability in the continent.

Hence his call in Brussels "both for a continued, perhaps even intensified, effort of the 12 to integrate, and a role for the EC as a magnet that draws the forces of reform forward in eastern Europe." Last July, at the seven-country annual economic summit, the US agreed to the European Commission taking a role in chairing the effort by the Group of 24 to help Poland and Hungary, about which Mr Bush says he was "exceptionally pleased".

There is uncertainty in Europe about what this means. One State Department official closely involved talked of integration having a security dimension: "Europe is more than just trade." The US is concerned with the political direction of Europe rather than the form of integration. Mr Bush has taken no position on, say, European monetary union and the social charter.

So it is wrong to see Mr Bush siding with one group or other in the debate before the EC's Strasbourg summit this month. His view is that the form of European integration is for the Europeans to decide.

Where the US differs from Mrs Margaret Thatcher is over the tone of the current British approach – the apparent lack of enthusiasm for, or rather the questioning attitude to, integration. Mr Bush and his advisers would like Britain to take a more positive view, and hence have more influence over the details.

Mrs Thatcher appeared taken aback on Monday by Mr Bush's plan for the future of Europe, and, in particular, by the reference to integration. But talk of British isolation should not be exaggerated, as Mr Bush made clear on the telephone yesterday to Mrs Thatcher.

The other misconception is that the US is somehow retreating from Europe. While there are neo-isolationists among conservative Republicans, the administration remains firmly committed to a continuing US role in Europe. This will involve not only maintaining "significant military forces" but also what Mr Bush has called "a close US partnership with the EC."

He referred on Monday to looking for ways "to improve our ties so a new Atlanticism will pull in harness with a new Europe."

The US is thinking of strengthening the political side of the relationship. This may be through the meetings of the troika (the immediate past, present and future presidents of the EC, at senior official/political director level) every six months. However, the US has stressed that this does not mean that the EC should supplant Nato.

There has been a shift in the balance of the relationship, with the US being less a commanding leader than a leading partner. In part, of course, this reflects the domestic budgetary constraints on the US ability to act on a large scale overseas.

But Mr Bush and his advisers also accept that the transatlantic balance has changed, with European countries taking the lead in deciding their own future. This may be unavoidable for the US, but Mr Bush has not been grudging; he has welcomed the change.

All this may add up mainly to a shift in mood. But it is significant. Mr Bush may at times be embarrassingly inarticulate, and is never likely to be regarded as charismatic or visionary, as he self-deprecatingly admitted on Monday. But he has succeeded in showing European leaders that he understands their concerns and shares most of their aspirations.

Interest 30% a month in Argentina

By Gary Mead in Buenos Aires

THE FEVER of Argentina's fragile economy has intensified with interest rates hitting a highly positive monthly 30 per cent this week. The rise threatens to divert President Carlos Menem's attempts to keep inflation below a monthly double-digit figure.

The jump in interest rates is a direct result of the Central Bank's decision to increase reserve requirements and induce highly positive interest rates, in order also to maintain the fixed official exchange rate of 650 australs to the dollar. However, the demand for US currency continued on the black market, with the rate about 950:$1.

Interest rates of 30 per cent a month are now more than twice the worst predictions for inflation in December. November's rate is expected to be 6 per cent, but in the last two weeks prices of many basic food items have risen by 20 to 40 per cent.

There is a growing belief that undertakings by Mr Nestor Rapanelli, Economy Minister, will have to be broken if indicators are not to deteriorate rapidly. He has stated that he will make no official devaluation before March and that public sector tariffs will not be increased before then.

Venezuelan ruling party upset in local polls

By Joe Mann in Caracas

THE RULING party in Venezuela, Democratic Action (AD), has taken a heavy beating in state and local elections, losing at least eight out of the 20 state governorships to opposition parties.

The elections, held on Sunday, when Venezuelans for the first time could choose regional candidates by name rather than by party, were also marked by the highest rate of abstention in the 30 years since the South American country saw the back of its last dictator. Some 60 per cent of the 9.2m electors did not vote.

Opposition political parties won the governorships of three heavily-populated states – Miranda (including a large part of the Caracas metropolitan area), Zulia and Aragua. A tiny left wing party, Causa R, took the governorship in the key state of Bolivar, centre of Venezuela's heavy industry. The new governor immediately announced that he would investigate alleged corruption by his AD predecessor.

The results of the gubernatorial race in another key industrial state, Carabobo, where troops were used to quell fighting among two opposing political groups, remained unclear.

Official figures for most of the 269 mayoral and city council contests have not yet been released.

In Caracas, AD saved some face when its candidate won the mayoralty. But its image was dented, albeit in victory, when its candidate for the governorship of Guarico state, Mr Modesto Freites, won while in jail awaiting trial on charges of corruption as a minister in the previous federal administration.

Results announced so far proved far worse than AD leaders had expected. The party, which has dominated Venezuelan politics for most of the country's democratic history, has been used to occupancy of the 20 governorships since the last AD president took office in 1984. President Carlos Andrés Pérez, who previously appointed all state governors *ex officio*, will now have to work with opposition governors from four different parties in some of the country's most important states.

The party's poor showing at the polls was partially due to negative reaction to a harsh economic adjustment programme implemented this year by Mr Pérez. The programme has caused high inflation and unemployment. Besides, many voters were put off by charges of widespread corruption under the AD government of President Jaime Lusinchi, who completed a five-year term in February.

New contra deadline offered

PRESIDENT Daniel Ortega of Nicaragua yesterday proposed extending until December 31 the deadline for US-backed contra rebels to demobilise, agencies report from Nicaragua.

He said he would present the offer at a three-day summit of Central American presidents, from Sunday in Costa Rica.

It seemed unlikely a new deadline would help to disband the rebels, most of whom are in Honduran jungle camps near the Nicaraguan border. There are also an estimated 6,000 contras in Nicaragua.

Speaking before thousands of people in Managua on Monday night, the president called for "a new popular insurrection" to defeat the contras.

The occasion was the official start of campaigning for elections due in February.

Mr Ortega is running for re-election for the governing Sandinista Front. His main challenger is the newspaper proprietor Mrs Violeta Barrios de Chamorro, supported by the US and nominated by a 14-party opposition alliance.

Contra leaders have said they will not decommission their forces until after the elections or until they feel it is safe for them to disarm and return to Nicaragua through a general and unconditional amnesty.

For the past month, Sandinista forces have been massing along the north-south central Nicaragua corridor, where the Contras operate, but no offensive has materialised.

Honduras protested recently at the UN, saying it was alarmed at the number of Sandinista troops and heavy weapons being massed near the border.

Nasa sets shuttle launch date

The US National Aeronautics and Space Administration (Nasa) announced yesterday it hoped to launch space shuttle Columbia on December 18 but said failure to get the launch pad ready on time could cause a day or two's delay, Reuter reports from Cape Canaveral.

"We've got a good shot at making December 18 if the pad work goes smoothly," said Mr Ed Campion of Nasa.

December 18 has been the target date for some time, but it only became official at the conclusion of a two-day flight-readiness review by shuttle managers.

The biggest potential problem is getting launch pad 39A ready for its first lift-off in nearly four years. The pad underwent a $50m overhaul to improve safety, fuelling and other systems, and several minor problems have cropped up since Columbia was moved to the pedestal last week.

All seven launches since shuttle flights resumed 15 months ago have been from pad 39B. The programme was grounded for 32 months after the 1986 Challenger explosion.

"Due to work on these facilities, there is a higher than normal probability of developing problems that might result in a short delay to the launch date," a Nasa statement said.

Mr Campion said if additional problems cropped up at the pad, he expected the delay would be minimal. Columbia will stay in space 10 days. The crew of five will deploy a Navy communications satellite and then retrieve a science satellite that has orbited the Earth for nearly six years.

OVERSEAS NEWS

Singh likely to write off Rs80bn in farmers' debts

By David Housego in New Delhi

INDIA'S new National Front Government is expected to write off about Rs80bn ($5bn) in farmers' debts in a populist move designed to consolidate its support in rural areas.

The debt cancellation is seen as a priority by Prime Minister V.P. Singh's administration – as well as by the Marxists and the militant Hindu BJP party on whose support it is dependent in the new Parliament. It would redeem pledges made during the election and strengthen the former opposition parties' grip on the northern farming belt in the run-up to state assembly elections in early March.

Senior officials in the economic ministries as well as the international lending agencies had hoped that the new government would postpone implementing promises over debt relief because of the inflationary consequences. Mr Singh, however, confirmed on taking power that his government would write off the debts of farmers, artisans and others in the rural sector up to a ceiling of Rs10,000 each.

A similar programme of debt relief announced two years ago in the northern state of Haryana by Mr Devi Lal, then Chief Minister of the state and now Deputy Prime Minister, came to nothing because of opposition by the Reserve Bank of India (the central bank) and Prime Minister Rajiv Gandhi's government. The Government forbade the nationalised banks to waive farmers' debts. Mr Lal is a strong supporter of the new proposal.

Other senior colleagues of Mr Singh see the measure as essential to demonstrate the Government's seriousness over transferring resources to the rural sector before the state elections. Thirteen states – among them some of the largest including Bihar, Madhya Pradesh, Gujarat, Maharashtra and Rajasthan – are due to go to the polls before March. In all these states the Front believes existing Congress governments can be overthrown.

Senior colleagues of the Prime Minister say that of the Rs120bn in outstanding bank credits to the rural sector, Rs80bn would represent the total of debts below the Rs10,000 ceiling. They believe the impact on the budget in the first year would be only Rs25bn because most of the loans are on a three- to five-year basis. The Government's responsibility would cover payment to the banks of annual principal and interest charges.

If there were no corresponding cuts in expenditure or increases in taxation, the Rs25bn outlay on debt relief in the first year would add more than 10 per cent to the budget deficit as measured by IMF criteria. It would also contribute to inflationary expectations and be considered worrying by industrial and financial circles.

Bankers said yesterday that the Government's accepting responsibility for annual payments of principal and interest was on an accounting basis "totally unacceptable".

Western diplomats believe such a large debt relief measure could jeopardise the possibility of India raising a fresh, low-interest loan from the IMF. Briefing papers presented to Mr Singh have suggested an IMF borrowing as one way of preventing a further decline in India's foreign exchange reserves. In the week ending November 24, the reserves (excluding gold and SDRs) had dropped 14 per from a year ago to Rs52.4bn – equivalent to two months imports – and were 31 per cent below their level of March 1987.

India's President Venkataraman signals an end to photos of the new ministers. Extreme left is Arun Nehru while in the centre V.P.Singh, with hat, stands next to Devi Lal

Indian PM names ministers

By David Housego

MR V.P.SINGH, India's new Prime Minister, named 16 ministers to his cabinet yesterday, but postponed announcing the departments for which they will carry responsibility.

The unusual move is seen as reflecting Mr Singh's difficulties in forming an administration. He was sworn in as Prime Minister on Saturday when Mr Devi Lal, the former Chief Minister for Haryana and a leading spokesman for the farmers' lobby, was also named as Deputy Prime Minister.

The assignment of individual ministerial responsibilities is being delayed to allow Mr Singh further time to find a balance between the factions in his Janata Dal party, the main constituent of the coalition government.

Among new ministers named yesterday were Mr George Fernandes, a Socialist and former Minister of Industry; Mr Arun Nehru, a cousin of former Prime Minister Rajiv Gandhi and a senior minister in his government; Mr Arif Mohammed Khan, a junior minister under Mr Gandhi; Mr Ajit Singh, a farmers' leader from the north and Mr I.K. Gujral, the Janata Dal spokesman on foreign affairs and likely to be named Foreign Minister.

Mr Singh also named Mr Ramakrishna Hegde, the former Chief Minister of the southern state of Karnataka and once mentioned as a potential Prime Minister, as head of the planning commission. Among three junior ministers, he appointed Mrs Maneka Gandhi, widow of Sanjay Gandhi, the former Prime Minister's younger brother who was killed in an air crash.

The appointments bring the membership of the council of ministers to 19 – small by Indian standards where governments have frequently run to over 50. In holding down the numbers Mr Singh intends to signal to other parties that the doors are open to them to join his coalition.

He hopes to broaden his administration by drawing in at least elements from the militant Hindu BJP party and the Communists. He also hopes for a split in the Congress that would bring in Congress leaders unhappy at Mr Gandhi's continuing leadership of the party.

The small size of the cabinet also reflects the fact that with only 144 members in his National Front alliance – out of a parliament of 525 – he has a relatively small pool of talent on which to draw. The names of the ministers announced reflect the different factions within the Janata Dal and the National Front.

Beirut confrontation continues

By Lara Marlowe in Beirut

VIOLENCE erupted in at least five separate places in Lebanon yesterday amid tension over the confrontation between Gen Michel Aoun, the Christian leader still occupying the presidential palace, and his Syrian-backed opponents.

Two civilians were wounded by shrapnel in east Beirut when mortars, automatic rifles and rocket-propelled grenades were fired by Lebanese army troops under Gen Aoun's command and Syrian-backed militias across the dividing green line.

The exchanges set off panic in the Moslem quarters of the city.

"The shelling has started," a frightened resident of the seafront Ein Mreisse district mistakenly shouted. The residents of Beirut have feared a resumption of shelling since President Elias Hrawi announced on November 26 that he would use military force if necessary to remove Gen Aoun.

Anxiety grew yesterday as anti-aircraft guns were fired across the green line in the early evening. The airbursts rarely cause casualties but the loud explosions are an effective means of creating fear. Four Israeli jets could also be heard to Beirut yesterday morning. They carried out the 17th Israeli bombing raid on Lebanese territory this year, this time against positions of the radical Popular Front for the Liberation of Palestine (GC) and Abu Nidal's Fatah Revolutionary Council in the Majdalyoun valley south-east of Sidon.

The Israeli-backed South Lebanon Army militiamen shelled two towns in southern Lebanon – Hadatha and Nabatiyeh. In reprisal, the pro-Iranian Shia Moslem Hizbollah militia fired four Katyusha rockets into the Christian village of Marjayoun.

Old loyalties die hard in Nigerian politics

Nicholas Woodsworth reports on the national debate over a return to civilian rule

IN A crowded Chinese restaurant overlooking the perpetual traffic jam along Lagos's Awolowo road, a party of Nigerians and foreign diplomats sits over dinner.

Middle-class professionals, the Nigerians have been invited to give their informal views on what in recent months has become a favourite topic – Nigeria's planned return to civilian rule in 1992.

As one course gives way to another, they enthusiastically take up their subject in the same way Nigerians take up all aspects of public life – with outspokenness, competition and irrepressible energy. As the talk heats up, the meal is forgotten, and it becomes obvious that there is little basis for any common approach to either politics or democracy.

One guest is convinced the country is capable, and on the brink, of genuine grass-roots political participation. Another believes only in the realpolitik of the country's complex ethnic and regional factionalism.

A third questions the capacity of Nigerians to accept the discipline and compromise required by democracy.

A fourth suggests the present military government is only waiting for an opportunity to scrap the entire exercise.

Increasingly disjointed and anarchic, the conversation by the end of the evening has left the diplomats less certain about the political future of Nigeria than ever.

All over the country, similar conversation, and similar uncertainty, is being provoked by an erratically-directed process of political transition to civilian rule. After 29 years of independence, two disastrous periods of experimentation with party politics, and seven military coups, there is a remarkable lack of consensus among Nigerians – both in the political class and among the population – on how best to proceed towards democratic civilian rule.

In May this year President Babangida lifted a six-year ban on partisan political activity and invited the formation of new parties, two of which would be chosen by the country's National Electoral Commission (NEC) to contest elections in 1992.

The two-party system and the proviso that each be adequately represented in all of Nigeria's 21 states were designed to cut across power bases traditionally formed around Nigeria's three main ethnic and religious groups – the Hausa in the predominantly Moslem North, the Christian tribes of the Yoruba in the South and Ibo in the East.

The President also reiterated a second and major proviso laid down two years earlier – the banning of all former politicians from electoral activity.

Determined to avoid the massive corruption, nepotism and ballot-rigging that brought down the civilian regimes of the past, he repeated that "our political programme must aim at laying the basic foundation for a new political order. We must create a new set of values, a new set of political attitudes."

The US signed an agreement on Monday cancelling $82m in debt owed by Nigeria, Reuter reports from Lagos. Mr Lannon Walker, the US Ambassador, also signed an agreement rescheduling until 1995 payments on an additional $274m.

Mr Walker said Washington had agreed to the debt write-off and rescheduling because Nigeria nation was implementing badly needed economic reforms. He said the decision "will begin a new era of the United States working more closely together with Nigeria to help achieve its economic reform objectives."

Several other Western nations already have written off Nigerian debt or agreed to a rescheduling. Lower oil prices and mismanagement of the economy forced it to devalue its currency and impose strict austerity measures in 1986.

The doubt expressed by many Nigerians, not least former politicians themselves, that a new set of attitudes and a generation of "new breed" politicians can be created by simple fiat, was proved by the government itself on October 7.

Bringing to a sudden halt all political activity, President Babangida announced that the 13 parties recognised by the NEC had defaulted through the falsification of membership claims, financial irregularities, and a failure to obtain sufficient representation on a state-by-state basis.

Most damning of all, they had continued to identify with the discredited parties of the past.

At the same time the President announced that while the Government would maintain its handover date of October, 1992, elections would be organised on an entirely new basis: the NEC would "synthesise" two new parties – the Social Democratic Party – slightly left of centre, and the National Republican Convention – slightly to the right.

The NEC has now written the constitutions and manifestoes of the two parties, and will undertake their funding, closely supervise their membership recruitment, oversee the election of grass-root party representatives to local, state and national levels, and finally, issue strict guidelines for the conduct of an electoral campaign. The SDP will campaign for free education, health and a greater state role for government, while the NRC will advocate a more market-oriented approach.

Most Nigerians expressed relief at the disbanding of the 13 political parties who, in President Babangida's words, had been "high-jacked" by a "gangster clique" of banned but wealthy and influential politicians.

Few, however, have watched the spectacle of a government attempting to impose ideologically-oriented, grass-roots democracy from the top down without feelings ranging from irony to anger.

Some analysts believe that the greatest threat to Nigerian stability in the past – the Moslem-Christian divide between north and south – has in recent years been diffused by the rapid growth in the number of Christians in the north and the growing size and influence of minority ethnic groups throughout the country. Such contentions, however, cannot be backed until the holding of a highly sensitive national census avoided by governments for more than two decades.

But in mid-November the present government postponed a promised pre-electoral census on the grounds that rainy weather in the lead-up to the October 1992 elections would hamper the operation.

While the military leadership has thus attempted to remove from the political arena the potentially explosive issue of Nigeria's current ethnic make-up, observers remain convinced that the politics of old regional loyalties will continue to play a big role.

In the context of the new, left-right dispensation, predictions are that the country's traditional power-base in the north will support conservative politicians, while the predominantly southern populist movement will back the left.

Neither will the politics of personality and patronage be avoided. Says Mr Lateef Jakande – a former state governor of Lagos, a banned politician, and a backer of one of the largest left-wing parties banned in October – "Nigerians don't talk about ideology, they talk about whom they can trust. Then they turn to their traditional leaders. Nothing the President has done has changed that."

If Mr Jakande is right, the road to civilian rule – much less a new political order – is likely to be long, difficult, and full of more surprising twists.

Malaysian Government signs peace accord with communists

By Lim Siong Hoon in Thailand

FORTY-ONE years of guerrilla warfare ended in Malaysia at the weekend as the Malaysian Government signed a peace agreement with the country's Communist Party under the watchful eye of the Thai Government.

The agreement will restore civil rights to about 1,000 guerrillas once they disband, give up their guns, and abandon war as a political tool. There will be no detention without trial, a method of the Internal Security Act widely used against the guerrillas.

Mr Chin Peng, leader of the Communist Party of Malaya (CPM), in turn pledged loyalty to King and country. But his party, according to the Malaysian Government, remains outlawed as it was before.

Similar conditions were used to negotiate for a peace settlement 44 years ago when Britain gathered together various political groups to agree on an independent Malaya within two years. The CPM, refused legal recognition and allowed the amnesty offer to expire, independence thus began bloodily.

Yet, in contrast to many Third World countries, Malaysia's nominally peaceful democratic elections have survived the CPM's revolutionary offerings.

The reasons have to do with the country's peculiar, and often problematic, political and economic system. In ideology and method, the CPM resembles Mao Tse Deng's Chinese Communist Party (CCP). Mr Chin tried to apply Mao's solutions to the problems of Malaysia. Like the CCP, the CPM's fight was not with a domestic capitalist class but with foreign imperialism, first against the Japanese invaders then the British.

After Malaysian independence, the party's ideological and political purposes were further confounded by the country's multi-ethnic structure, with the share of power meted out by precise ethnic division.

Power-sharing was mapped out constitutionally and institutionalised in the racial parties: Malays in the United Malays Organisation (Umno), Chinese in the Malaysian Chinese Association, and Indians in the Malayan Indian Congress.

Malays were mostly farmers and they formed the political ruling class. The non-Malays were the poor who migrated in search of, and found, wealth in trade and mining.

The CPM, initially made up of only Chinese, had no distinct class system to overthrow.

By the Seventies, the party's activities degenerated into terrorism. Street and village killings (the victims were mostly Malay soldiers and policemen) were rife.

The main body of guerrillas, meanwhile, hid in the jungles at the northern border with Thailand. Mr Chin absconded to China where, he said, his command dwelled on mere "political matters." China pretended Chin Peng did not live there and refused talking about the CPM problem.

For China, the best solution between a brethren party fighting a friendly government is "honourable settlement" in place of surrender.

This is a matter of expediency. After the Tiananmen massacre on June 4, China found its circle of friends had shrunk. But Malaysia remained a "true friend", and Beijing said so to visiting Malaysian officials who regarded the killings an internal Chinese affair.

Nevertheless, Mr Chin and his men will be free to participate in Malaysian politics without Communism. First, however, they must prove their Malaysian citizenship, according to a diplomat in Bangkok. If not, Thailand, it seems, is willing to offer them settlement.

Chin: pledging loyalty to king and country after 41 years of war

Japan's LDP returns to public popularity

By Stefan Wagstyl in Tokyo

JAPAN'S ruling Liberal Democratic Party, which is likely to call a general election early next year, yesterday received a powerful psychological boost from an opinion poll showing a strong recovery in public support.

The party has regained almost all the ground it has lost in the last 18 months through its involvement in the Recruit financial scandal and its introduction of an unpopular consumption tax, according to the poll published in the Nikkei Shimbun, the business daily.

The LDP's support rating, which hit a low of just over 30 per cent in the spring, has climbed back to 44.5 per cent, compared with 46.7 per cent before the Recruit scandal erupted in the summer of 1988.

Using these figures, the LDP would retain its majority in the lower house of the Diet (parliament) to the event of a general election, reversing previous indications.

The poll's verdict helped to push shares on the Tokyo stock market to new highs, with the Nikkei index closing up 190.30 at 37,494.17. However, some commentators cautioned against reading too much into the results since the Nikkei Shimbun's polls are often more favourable to the Government than those published in other newspapers. Also, the Nikkei poll was carried out before the LDP announced its latest plans for revising the consumption tax, plans which have run into considerable criticism for ignoring voters' concerns.

Nevertheless, there is widespread agreement in Tokyo that the Nikkei is correct in highlighting growing support for the LDP and, in particular, for Mr Toshiki Kaifu, the Prime Minister. His personal support rating was 57.9 per cent, the highest for any prime minister since the Nikkei started polling two years ago.

Miss Takako Doi, leader of the Japan Socialist Party, the main opposition grouping, retains her personal popularity: she was the second most popular choice for prime minister after Mr Kaifu. However, support for her party has dropped because of the JSP's inability to take advantage of the LDP's disarray over the last few months.

The poll put support for the Socialists at 26 per cent against a peak earlier this year of 30 per cent, still comfortably above the party's pre-Recruit ratings of less than 20 per cent. One effect of the prolonged crisis which seems to have lasted is the polarisation of support between the Socialists and the ruling party – at the expense of a handful of smaller parties.

Taiwanese protest over 'ballot rigging'

By John Elliott in Taipei

POLICE clashed yesterday with several thousand demonstrators in the southern Taiwan county of Tainan where the country's main political opposition, the Democratic Progressive Party, is claiming that the ruling Kuomintang rigged ballot counting last Saturday for the key administrative post of county magistrate.

The DPP claims Kuomintang supporters stuffed ballot boxes so their candidate was declared the winner by a narrow margin of some 9,000 votes. The DPP is demanding a recount.

Five policemen were reported hurt in the clashes.

The DPP's success in the elections for national and local posts – winning six city and county mayor and magistrate administrative posts – has shocked the Kuomintang. Some 30 of its successful candidates have also supported unconstitutional claims for Taiwan to declare itself independent of China.

Four charged with blackmailing Fuji Bank officials

JAPANESE police said yesterday that four men, including the former secretary of a Japanese parliamentarian, had been arrested on charges of having blackmailed officials of the Fuji Bank, the world's third largest bank, for Y500m (£2.2m) in loans, Robert Thomson writes from Tokyo.

The men had reportedly said that they would expose the bank for having loaned money to a criminal organisation, which had allegedly failed to repay the money. Police said that the former political secretary visited the Fuji Bank in June 1986 and demanded the Y500m loan in return for silence.

Police said that the men received Y500m from a Fuji Bank subsidiary, although bank officials had objected to the loan.

The money was to be used for the purchase and renovation of a five-storey hotel, and police said that the men later sought a further loan from the bank after the first Y500m was spent.

The Fuji Bank yesterday had no comment on the matter.

Israel comes to terms with East-West realities

Hugh Carnegy reports on how changes in relations between US and the Soviet Union are seen in Jerusalem

THE Middle East may have occupied a lowly spot in the order of subjects discussed at the summit between President Bush and President Gorbachev, but the closeness of views expressed on the region by the two leaders has focused attention in Israel on what implications the re-shaped relationship between Moscow and Washington may have for it.

Yesterday, Mr John Kelly, the US assistant secretary of state for Middle East affairs, briefed Israeli leaders on the summit, conveying the message already spelled out publicly by Mr Bush that the US and the Soviet Union were in broad agreement on efforts to achieve an Arab-Israeli settlement.

Mr Gorbachev apparently answered Mr Bush's call that Moscow should re-establish full relations with Israel – severed after the 1967 Six Day War – by emphasising that many contacts were already underway. The Soviet position has been to withhold full ties until Israel makes concessions to the Palestinians.

In the immediate term, Israeli officials note that Moscow seems content quietly to support present US-backed efforts to establish a dialogue between Israel and the Palestinians, to the shape of a five-point proposal by Mr James Baker, the Secretary of State, aimed at advancing an Israeli peace initiative.

The traditional Soviet call for an international peace conference including the PLO, something rejected by Israel, has recently not been emphasised so strongly. "They now accept it as an element in a sequence that starts elsewhere," said one senior Israeli Labour party figure.

However, the prospect of co-ordinated US-Soviet policy could have uncomfortable consequences for the hardline Likud party of Mr Yitzhak Shamir, the Prime Minister, which refuses to countenance a withdrawal from the occupied territories or to deal in any way with the Palestine Liberation Organisation.

Mr Arye Naor, a Cabinet secretary to the former Likud Prime Minister Menachem Begin, noted in yesterday's Yediot Ahronot that events were moving towards "a cruel dilemma" for Israel between accepting a role for the PLO in the present peace efforts or an international conference later on including the PLO, with both the US and the Soviet Union favouring territorial concessions by Israel.

Mr Shamir was at pains to deny this yesterday after meeting Mr Kelly. A senior aide said Moscow's preoccupation with domestic concerns and the upheavals in Europe meant the US would continue to take the lead in the Middle East.

The dramatic changes in the East-West strategic equation may spill over to other ways. From the Israeli point of view, the hope is that it will benefit from declining Soviet commitment to hostile Arab countries, such as Syria, while preserving its own close ties with the US.

"What do we really believe – that the Russians will give up Hungary, Poland, Germany and not Syria, Ethiopia and Libya?" Mr Shimon Peres, the Labour leader, asked this week.

The fact that events in Europe have diverted international attention away from the Palestinian uprising in the occupied territories is also a welcome development for the Government.

Troops kill five gunmen

By Hugh Carnegy in Jerusalem

ISRAELI troops intercepted and shot dead five heavily armed gunmen who crossed the border from Egypt yesterday in one of the most serious tocidents on the frontier since Israel handed back the Sinai peninsula in 1982 under its peace treaty with Cairo.

The army said it had not identified the gunmen, hut the immediate suspicion was that they were a Palestinian group intending to mark the second anniversary this Saturday of the Palestinian uprising in the occupied territories with an attack within Israel.

According to the military, the group was armed with five Kalashnikov rifles, a pistol and no less than 51 hand grenades. They were spotted crossing into the Negev desert from the Sinai and shot after a chase, the army said, adding there were no Israeli casualties. A spokesman declined to identify the exact location, althongh Israel Radio said it was a spot in the centre of the 250 km-long desert frootier.

Israel is bound to express serious concern over the incident to the Egyptian anthorities. Since the two countries made peace, Israel has regarded the Sinai frontier – unlike most of its northern and eastern borders, not entirely fenced – as its least sensitive. The chief problem has been smugglers. In March this year, two teenage Palestinians were wounded when they attacked an Israeli frontier post close to the Gaza Strip at the north end of the border, bnt otherwise armed infiltrations have been rare.

Vigil for UK businessman

Relatives and friends of Mr Roger Cooper, the British businessman jailed without trial in Iran since 1985, are mounting a campaign to draw attention to his plight, Victor Mallet writes.

A demonstration is to be held in Whitehall tomorrow to mark the start of his fifth year in captivity, and MPs will be asked to sign a hnge Christmas card to he sent to him in Evin Prison, Tehran.

The Iranian authorities have issued conflicting signals about Mr Cooper's fate. He was receotly visited in jail by Mr Konrosh Fouladi, an Iranian wbo served a sentence in Britain on terrorism charges hut waa released in September.

UK NEWS

Major urges industry 'to take up new opportunities'

By Peter Norman, Economics Correspondent

Mr John Major, the Chancellor of the Exchequer, yesterday told British businessmen that they faced "unparallelled new business opportunities" in the 1990s even though next year would be difficult.

Addressing the inaugural lunch of the Association of British Chambers of Commerce, Mr Major called on industry in Britain to "go out and look for business elsewhere to maintain profits and output and jobs."

He said Britain's share of world trade was likely to rise this year, adding that he expected strong growth in exports to continue into the future.

However, the Chancellor did not conceal his concern about Britain's large £20bn annual current account deficit, calling on companies to try and take more of the British domestic market from foreign producers.

"I think I could easily live with a lot more import substitution, because we still import far too many products that could well be manufactured in the UK," he said.

Yesterday's lunch was the first occasion on which Mr Major had addressed a large business audience since taking over as Chancellor from Mr Nigel Lawson nearly six weeks ago. It was an event for raising the spirits rather than detailing policies and he met with an enthusiastic reception.

Mr Major acknowledged that growth next year would be "lower than we would wish and inflation higher." But he insisted that a recession was neither likely nor necessary as the Government acted to cut inflation.

"What gives me confidence about the long term is the underlying health and strength of British business. That is considerable," he said.

Business and industry were "more efficient and effective, better managed and more able to confront short term difficulties successfully than for many years," he said. Industry was productive and well equipped. In recent years it had demonstrated a greatly improved supply response to rising living standards and rising demand at home.

The Chancellor acknowledged that there were risks facing the economy. The main threat was inflation: "the mother and father of industrial strife."

Wage settlements that were higher than merited were also a "perennial problem".

Another risk was that of businessmen allowing themselves to be talked into recession. "Pessimists are the British curse," he said.

Mr Major said that there had been a "culture change" in industry. The British workforce was now far better motivated and more productive than before. Greater worker involvement in industry had contributed to a "real erosion of the them and us divide which for so long bedevilled British industry," he said.

This year would see a record net increase in new small businesses. Investment was holding up well. Self employment was growing strongly, especially in Scotland and the north of England.

Mr Major said the relative prosperity of regions outside the South east showed that high interest rates were doing their job of combatting inflation "without the full brew of unpleasant side effects that were predicted."

Ambulance union in more talks

THE BREAKAWAY Association of Professional Ambulance Personnel held its second day of talks with management negotiators yesterday with little sign of an end to the 12-week long ambulance pay dispute, writes Fiona Thompson.

During a break in the talks, Mr David Rennie, chairman of the management side, said the talks were concentrating on the 9 per cent 18-month offer which was rejected by the five unions affiliated to the Trades Union Congress federation.

The APAP, which was given negotiating rights only last week, was formed in 1981 after the 1979-80 Health Service unions' dispute.

The Department of Health is likely to impose any deal agreed with APAP on the country's 22,500 ambulance staff.

The association is seeking an improvement of the overall package through the introduction of service increments after three, five, 10 and 20 years, and an extension of the numbers eligible for extra pay for paramedic skills.

APAP claims to represent 4,900 of the 22,500 ambulance staff, but the unions maintain the true figure is under 3,000.

Dealing in Duménil trusts suspended

By Richard Waters

CHAOS IN the back office of Duménil, the unit trust management group, has led to dealings in its 11 unit trusts being suspended by UK financial market regulators.

The suspension, which prevents 12,000 unit holders dealing in their investments until February 5, is the first of a unit trust group and follows a self-imposed one-month suspension by the Duménil management and trustees announced early last month.

Duménil Unit Trust Management is owned by the Banque Duménil Leblé, an ambitious Paris-based financial services group which also owns a stake in London merchant bank Leopold Joseph and which is itself owned by Mr Carlo De Benedetti's Cerus.

The action relates to errors in the pricing of Duménil's units, resulting from chaotic administration at the London-based group. The fact that all 11 unit trusts, accounting for £33m, have been suspended suggests that the errors are widespread.

Mr Nigel Herrick, sales and marketing director, says the mistakes "are random and are not related to a particular moment in time." He said the errors also dated back further than the group had thought, possibly to October 1988, when Duménil took over the administration of its unit trusts from Manchester Unit Trust Administration.

Explaining the reason for the further two months' suspension, Mr Herrick said: "We have not unscrambled the scramble." The Duménil management was presented with an interim report on the muddle by Touche Ross, the consultancy, last week.

Yesterday's suspension, issued by the Securities and Investments Board and the Investment Management Regulatory Organisation, is the latest step in a saga which dates back to the beginning of the year, when Imro first paid a routine compliance visit to Duménil. This visit is said by Imro to have led ultimately to the suspensions, although this is disputed by Duménil, which said the errors "came to light through our own internal checks."

Imro's intervention is believed to have led to management changes at the group.

In Brief

Shell delays restart of North Sea production

The restart of oil production at two Shell-operated platforms in the North Sea, which together produced 140,000 barrels a day before being shut down in May, had been delayed until after mid-February said Shell.

The reduction in North Sea crude oil supplies caused by maintenance problems and accidents has contributed to a tight oil market that has lifted prices.

Shops on foundry site

Triplex Lloyd, the foundries and engineering group, has won planning permission for a £50m redevelopment of the West Midlands site where Europe's biggest steel foundry once stood. The 64-acre development, in Darlaston will comprise shops, offices and housing.

Scheme to buy centre

Universities Superannuation Scheme, the pension fund, is to buy the Telford shopping centre from the Telford Development Corporation for more than £80m. The development corporation was to sell the centre to Taylor Woodrow Properties but completion of that deal foundered on a disagreement over some of the conditions in the offer.

600 jobs created

More than 600 jobs are being created in Wigan, in the UK by Wardells and Wincanton, the distribution subsidiaries of Tibbett and Britten. Each company is setting up a packaging operation, one for a DIY chain and the other for a national food retailer.

Vag redundancies

Vag(UK), the Lonrho subsidiary which imports Volkswagen and Audi cars from Britain, is making redundant 100 of the 800 staff at its Milton Keynes headquarters after a review of operating procedures. The job losses reflect pressure on the company to cut costs to help counter the effects of reducing its UK prices.

Microwave names held

The British Ministry of Agriculture has turned down demands to name microwave ovens which failed food heating tests. A study showed that 32 out of 102 ovens tested had "cool spots" with a temperature less than 70C – the recommended minimum limit for destroying bacteria.

Lucas to hive off wiring business to Sumitomo venture

By Richard Tomkins, Midlands Correspondent

LUCAS INDUSTRIES, the aerospace, automotive and industrial group, is to hive off part of its UK car wiring systems business to a joint venture with Sumitomo Electric Industries, the Japanese electrical and electronics group.

The move comes as a further example of how British automotive component manufacturers are forging alliances with their Japanese counterparts in response to the influx of Japanese car manufacturers into the UK.

The joint venture company, to be known as Lucas SEI Wiring Systems, will be based on the existing Lucas wiring systems factory at Ystradgynlais, South Wales, which makes wiring systems for the new Rover 200 series and the Honda Concerto.

Sumitomo Wiring Systems, a Sumitomo subsidiary, is buying a 50 per cent stake in the operation for an undisclosed sum – believed to be several million pounds – with Lucas retaining the other 70 per cent.

Lucas is already associated with Sumitomo because the two companies collaborated on the design of the wiring systems for vehicles produced jointly by Honda and Rover. The wiring harnesses produced at Ystradgynlais use Sumitomo technology.

Sumitomo and Lucas also have a joint venture company making braking systems in the US, called Lucas Sumitomo Brakes, and Sumitomo licenses Lucas's braking technology in Japan.

Lucas believes the formation of the wiring systems venture with Sumitomo will improve its chances of winning further business not only on Honda/Rover projects, but with other Japanese car manufacturers setting up in the UK. Toyota and Nissan are already Sumitomo customers in Japan.

The joint venture is also intended to reduce the likelihood that Sumitomo or other Japanese manufacturers might consider setting up their own wiring harness operations in competition with Lucas on greenfield sites in the UK.

Lucas Body Systems Rists, which manufactures wiring systems for the European automotive industry from a plant in Newcastle under Lyme in the Midlands, will remain a Lucas subsidiary.

Gateway banks 'will be left with unsold loans'

By Stephen Fidler, Euromarkets Correspondent

BANKS underwriting £1.36bn in loans that financed the leveraged buy-out of the Gateway supermarkets group will be left with a large unsold portion of the financing, the loan's arrangers, S.G. Warburg, the merchant bank, indicated yesterday.

The difficulties in syndicating the loans for the Isosceles group to other banks reflects the nervousness now felt by international bankers over large UK leveraged buy-outs in the light of problems faced by some companies with high debt burdens resulting from such LBOs.

S.G. Warburg said that 16 bank underwriters had been left with roughly 40 per cent of the financing over and above their desired final commitments, which it declined to specify. It means the underwriting group, enlarged from eight to 16 soon after the loans were announced in the summer, were left with about £550m more in loans than they had bargained for.

While the syndication had taken longer than expected, Warburg officials consider that, given the climate, it might have gone much worse. They had argued that as a food retailer, the business of Gateway should be well insulated from falls in spending caused by high interest rates.

Most LBOs which have hit problems in the UK have been retailers of large consumer good items. Lowndes Queensway, the carpet and furniture retailer, last week said it was discussing a refinancing with bank lenders only a few months after an earlier refinancing had been agreed.

THE GENERAL HOUSEHOLD SURVEY

Big rise in home ownership highlighted

By Jimmy Burns

WITH LESS than a month to go to the end of the decade, a Government statistical office yesterday provided some snapshots of British life over the last 10 years.

Preliminary results from the General Household Survey, published by the Office of Population Censuses and Surveys (OPCS), confirms the affluence which swept through some private households in the credit boom of 1987 and 1988, before the sharp rise in interest rates began to dampen expectations.

The GHS is a continuous survey which has been carried out by the OPCS every year since 1971. It is based on a random sample of about 10,000 household interviews with those over 16 years of age.

The pattern of spending is highlighted in separate statistics on consumer durables and *other aspects of domestic life*.

Among the biggest changes was an increase in the proportion of those owning their homes, which went from 49 per cent in 1971 to 64 per cent last year.

Most of the increase is attributable to a rise in those who have mortgages, from 27 per cent of the households to 40 per cent over the same period.

Between 1987 and 1988, the proportion of local authority tenants who had considered buying their own homes increased from 21 per cent to 27 per cent showing the continued popularity of the policy of selling council houses introduced under the Conservative Government of Mrs Margaret Thatcher.

The survey also confirms the growing participation of married women in the labour market as employers address the *prospect of skills shortages* arising from fall-off in the number of school leavers.

In contrast to the fluctuating pattern for unmarried women the economic activity rate of *married women increased* steadily from 50 per cent in 1971 to 69 per cent in 1988.

Last year, 60 per cent of women with dependent children and 77 per cent of those without dependent children were economically active, compared with 49 per cent and 71 per cent respectively in 1973.

The greatest change was among women whose youngest dependant child was under four years old.

According to the OPCS, most of the increase in the proportion of women working was due to the increase in part-time working.

The survey found that 28 per cent of women aged 16-59 were working part-time in 1988, compared to 23 per cent in 1973.

By contrast, the survey shows that the economic activity rate of men aged 16-64 remained fairly stable between 1971 and 1988. There was, however, a marked decline in the rate for men aged 60-64, from 85 per cent in 1971 to 53 per cent in 1985, which may reflect an increase in early retirement.

Since 1985, the rate for men in this age group has fluctuated between 53 per cent and 55 per cent.

The decade appears to have heightened sensitivity about health, with the proportion of men and women reporting long-standing illnesses increasing markedly between 1971 and 1988.

OPCS Monitor: General Household Survey; OPCS, St Catherines House, 10, Kingsway, London, WC2B 6JP; £2.

Microwave ovens top list of consumer durables

By Jimmy Burns

STATISTICS on the ownership of consumer durables provide an insight into how the credit boom of the late 1980s has affected spending priorities.

Between 1987 and 1988 increases were recorded for a range of durables, with the steepest increase in the proportion of households with microwave ovens – from 30 per cent in 1987 to 39 per cent in 1988.

The proportion of households with video recorders also increased significantly during the period, from 46 per cent in 1987 to 53 per cent in 1988.

Easily the most widely-owned consumer item remains the television, with 98 per cent of those interviewed for the survey claiming to have at least one black and white or colour set.

The proportion has remained constant since 1983, but the proportion of households with a colour set has increased from 81 per cent in 1983 to 91 per cent in 1988. Of those owning TVs, 54 per cent had two or more sets in 1988.

Other durables which remain popular but where the increase has was less marked during the period covered by the survey were telephones (85 per cent), washing machines (84 per cent), deep freezes (77 per cent) and central heating (76 per cent).

By contrast, a relatively small number of people owned dishwashers (10 per cent). The proportion of households with a home computer remained unchanged at 18 per cent.

Despite wide publicity given to the possibilities of technology-based home working, the statistics suggest that most people still worked in offices or factories.

The General Household Survey has monitored the availability of consumer durables since 1972, adding and subtracting certain items from its list from time to time.

Vacuum cleaners were dropped from the list after 1982 and refrigerators after 1985, when both items were in 95 per cent of households.

Single-parent families, unmarrieds show increase

By Jimmy Burns

TRADITIONAL family life in Britain has been breaking down at a growing rate, with families increasingly headed by a single parent and more unmarried couples living together.

The General Household Survey said the average size of households in 1988 was 2.48 persons, down from 2.55 per cent in the previous two years.

Throughout the 1970s there was a gradual reduction, from 2.91 persons in 1971 to 2.67 in 1979. The trend continued during the early 1980s, levelling off between 1985 and 1987 before decreasing further in 1988.

The proportion of families with dependent children that were headed by a single parent doubled between 1971 and 1988 to 16 per cent. This was due to an increase in the proportion of lone-mother families, which was 12 per cent between 1983 and 1987 but rose to 15 per cent in 1988.

The proportion of families with dependent children headed by a lone father has remained at 1 cent to 2 per cent since 1971.

Other statistics pointing to a weakening in traditional family life include a substantial increase in the proportion of unmarried women aged 18-49 co-habiting with a partner, which more than doubled from 3 per cent in 1979 to 8 per cent in 1988.

As in previous years, divorced women were more likely than other women to be co-habiting – 23 per cent compared with 20 per cent of single women, 16 per cent of separated women, and 5 per cent of widows.

The survey found that women aged 20-24 were more likely to be co-habiting than women in other age-groups. Among men, the peak age-group was 25-29.

According to the GHS, the average size of households with children under 16 has decreased since the survey first began, from 4.3 persons in 1971 to 3.9 persons in 1988.

ERM entry advocated by parliament committee

By Peter Norman, Economics Correspondent

A HOUSE of Lords committee yesterday added its voice to those urging a speedy entry for sterling into the exchange rate mechanism of the European Monetary System.

The Lords European Communities Committee said sterling should become a full member of the EMS before July 1990 to protect British interests.

The committee concluded that it was imperative for Britain to play an active economic and political role in implementing stage one of the Delors committee proposals for economic and monetary union.

Stage one envisages completion of the EC's single market programme, liberalising capital movements, a stronger EC competition policy, strengthened co-ordination of economic and monetary policies and the inclusion of all EC currencies – in the exchange rate mechanism (ERM) on equal terms.

"The need for the United Kingdom to convince its Community partners of its European credentials is more important than ever. This can only be achieved by joining the ERM soon, and the committee suggests before July 1990," the report said.

The committee said that early entry, ahead of the formal start of stage one next July, would enable the UK "to play its proper part" shaping the future of the Community. By appearing reluctant to participate fully, Britain "can only jeopardise its chances of having a continuing and significant influence on the form of tha Community's economic and monetary union."

Tha report argued that a common currency for the Community "would bring anormous economic gains," but said there should be proper safeguards for democratic accountability.

It warned against the Community being "rushed into an unsatisfactory form of economic and monetary union as a result of short-term pressures." A satisfactory form of union could best be assured by waiting until the single market was operational and for proof that stage one was a success.

The report noted that the Government had made full membershin of the ERM conditional on a fall in UK inflation, the successful accommodation by existing ERM members of the free movement of capital and substantial completion of the single market in financial services.

It said none of these conditions presented a serious obstacle to Britain's joining soon.

The Delors Committee Report, House of Lords Select Committee on the European Communities. Session 1989-90, 2nd Report. HMSO, £13.90 (report and evidence); £5.10 (report only).

House price inflation lowest for seven years

By Andrew Taylor

HOUSE PRICE inflation last month slowed to its lowest since 1982 as prices kept falling in many areas, the Halifax Building Society, said yesterday.

The society, Britain's biggest, said: "House prices are now depressed throughout the country with prices continuing to fall in the South and Midlands. Even in much of the North of England and Scotland house prices are now hardly moving."

Halifax said that the average price of a UK home of £60,837 in November 1989 was only 4.5 per cent higher than during the corresponding month last year.

At the end of last year, house prices nationally were rising at an annual rate of more than 34 per cent.

Building analysts say the steep fall in house sales will mean that many housebuilders, particularly those with large operations in southern and eastern England, will report lower profits in 1989 and 1990.

Tarmac, Britain's biggest housebuilder and one of the country's largest construction groups, warned last month that group profits would fall this year because of a sharp drop in house sales.

Halifax said that house prices had fallen by more than 2 per cent during the past three months. New house prices had been falling at a faster rate, as builders have been offering discounts and mortgage subsidies to attract buyers.

The price of a new house had risen on average by only 1.8 per cent during the past 12 months to £71,355.

Decorations camouflage divisions

Ralph Atkins reports on the impotence of Belfast's City Council

BELFAST City Council is preparing harder than ever for Christmas.

Northern Ireland's leading local authority put the first Christmas tree outside its impressive Victorian City Hall in Donegall Square in mid-November. A programme of festivities is underway.

But the season of goodwill to all men is still far away, for this is local democracy Northern Ireland-style.

Four years after Mrs Margaret Thatcher and Dr Garret Fitzgerald, then Irish Prime Minister, signed the Anglo-Irish Agreement, politicians on all sides are still looking for ways of devolving administration – none more so than Mr Peter Brooke, Northern Ireland Secretary appointed five months ago.

In Belfast, there is no sign of change to a bizarre and paradoxical 15-year-old system, whereby the locally-elected politicians are given next to no responsibilities but – despite their impotence – squabble viciously among themselves.

The council's enthusiasm for Christmas is understandable. It has little else to do. In theory responsibilities are numerous – but few substantial. They boil down, the joke goes, to "bins, bogs and burials".

Apart from controlling parks, refuse collection, street cleaning and community services, the council has a consultative role in town planning. But education, housing and transport are out of bounds.

That might be acceptable if there was a higher locally-elected authority with greater responsibility. But there isn't. Everything else falls to Mr Brooke and his team of five ministers, all appointed by Mrs Thatcher.

Belfast also illustrates the insurmountable problem of bringing the two sides of a divided community together. Unionist leaders, still incensed by the Anglo-Irish agreement, refuse to meet Government ministers.

"It is the declared policy of the United Kingdom Government that responsibility in respect of certain matters within the powers of the Secretary of State for Northern Ireland should be devolved within Northern Ireland on a basis which would secure widespread acceptance throughout the community."

Article 4(b) Anglo-Irish Agreement, November 1985

Even if business is about refuse collection, council meetings sometimes end in uproar – and occasionally physical violence – as unionists refuse to co-operate in the business of government with councillors of Sinn Fein, political wing of the IRA.

Councillor Reginald Empey, Unionist Lord Mayor of Belfast, says: "It is not only frustrating, it is preposterous." He resents the enormous power of civil servants in Government departments in the province. "We are professional beggars," he said.

He gives an example: "If you have two paving slabs one besides the other and there is a crisp bag on them, we are responsible for lifting that crisp bag. If there is a weed growing between those two flagstones the Government will come along and take it out."

The simple explanation for Belfast's impotence is that it is an accident of history. Local government in the province was reorganised from 1973 following a report by Sir Patrick Macrory, chairman of a review body set up in 1970. It created a system of 26 district councils with area boards for education, library and health services.

District councils were intended to be the lower level of a two-tier system. The snag was that the Northern Ireland Assembly – a 78 member body elected by proportional representation and intended to form the upper level – collapsed in 1974. That left the so-called "Macrory gap". Successive Governments have failed to find a way of filling it.

That, though, is the sanitised version. Belfast City Council's continuing weakness illustrates more than an administrative blunder. It shows the enormous difficulties in getting political parties to work together: not to agree on policy – but to agree on the form locally-elected authorities should take, who should be allowed to take part, and what responsibilities it should have.

"Belfast is an example of the state of politics in Northern Ireland, said Councillor Alban Maginness, of the Social Democratic and Labour party.

Since 1985, when Sinn Fein first stood in force at council elections, the *status quo* has become still more intransigent. It marked a shift of tactics for the predominately working-class party as it sought to woo the vote in staunch nationalist areas of the City.

Sinn Fein currently has eight councillors out of a total of 51. At the other end of the spectrum, the various shades of unionism – Ulster Unionists, Democratic Unionists (DUP) and Independent Unionists – hold 28 seats, continuing a grip on power that has lasted for generations.

Mr Gerard McGuigan, Sinn Fein councillor, describes Belfast City Council as "a Unionist club. . . a bigoted bastion for a clique." He says Sinn Fein's reason for standing was not to debate policy but to check abuses by councillors.

The response from Unionist councillors was at first hostile. . . and then vitriolic. "When I first went into the chamber I would say 'hello' to other councillors," says Mr McGuigan. "Now most of them don't even acknowledge you. The only thing you get from them is shouts of abuse."

The unionists' reaction is easily explained. Mr Nigel Dodds, DUP councillor and former Lord Mayor, calls Sinn Fein "apologists for murderers".

The Lord Mayor says: "We are supposed to sit and work with those sort of people, knowing they are killing our constituents. I defy anybody on the mainland to think that is fair and proper."

Within a year of Sinn Fein arriving *en masse* was the signing of the Anglo-Irish agreement, intended to provide a framework for dialogue. In Belfast at least, unionists remain stubbornly opposed, resentful of how they were not consulted and horrified at the role given in the province's affairs to the Irish Republic.

"Since the Anglo-Irish agreement was signed we don't regard ministers in Northern Ireland as having the same status as they had pre-1985," says the Lord Mayor. "We don't regard them as being purely British Government ministers, full stop. They have taken on a new identity now."

There is no shortage of people looking for a way out. The DUP and Ulster Unionists are in agreement that Sinn Fein should be banned.

The Lord Mayor himself has a scheme. In September he called together representatives from all district councils in the province to seek a combined response to Government proposals on compulsory competitive tendering (CCT) for local authority contracts.

It is a policy he believes, by delegating more responsibilities to private contractors, will reduce still further the power of Belfast City Council.

Retrovir tumour finding

By David Marsh

WELLCOME, tbe drugs company, said yesterday its Retrovir anti-AIDS drug caused tumours when given to rodents in high doses. The findings may affect the company's plans to gain approval for distribution of the product to people who have the AIDS virus yet who have not developed symptoms.

The company said it did not expect the findings to affect significantly doctors' use of Retrovir, which had sales last year of £134m. It said the tumours arose after mice and rats were given Retrovir for up to three years at doses up to 10 times higher than the recommended human level.

Drugs industry analysts reacted calmly, on the ground that several other drugs in use by humans had prodnced tumours in animals when given over long periods.

Mr Robin Gilbert, an analyst at James Capel, the London stockbroker, said the announcement may place doubt over plans to gain government approval to sell Retrovir to the 10m-20m people worldwide who have the HIV virus, but have not developed signs of full-blown AIDS.

● Glaxo, Britain's biggest drugs company, has dropped from its research and development programme an ulcer product that was once-heralded as a possible successor to Zantac, the company's large-selling ulcer formulation.

The announcsment was received calmly by analysts. The product, called sufotidine, had earlier this year been downgraded in importance by Glaxo and was not expected to produce high sales.

Sell-off advertising 'poorly planned'

By Ralph Atkins

INEFFICIENT planning and buying of media space for government privatisations was identified yesterday by the National Audit Office (NAO), the public spending watchdog.

Government teams running privatisation campaigns often have little experience of large-scale advertising projects, its report on Government publicity says.

Failure to take full advantage of media specialists at the Central Office of Information has led to poor planning and wasteful buying. Penalties are incurred through late booking.

The report said that much official publicity work was effective, but identifies areas where improvements could save money. It criticises, in particular, the campaign last year to promote the social security benefit Family Credit.

In contrast, the Government's AIDS information publicity was welcomed as "an extremely well-planned and well-managed campaign." An advertising campaign for the 1992 project successfully achieved its target that 90 per cent of business should be aware of the European single market's imminence.

Nearly £200m was spent by government departments and other public sector bodies on publicity in 1988-89 – making it among the biggest buyers of advertising in the UK. More than half went on media advertising. A further £11.6m was spent on publicity for British Steel's privatisation.

Some 75 per cent of spending on publicity services for government departments is channeled through the COI, the government information agency which was set up in 1946. Each year it buys about 33,000 advertising spots on television and 9,000 advertisments in printed media.

The report praises the COI for achieving "significant economies" in rates paid to advertising agencies. But it suffers a scarcity of skilled staff because it cannot compete with salaries paid in the private sector.

By employing "appropriately qualified and remunerated" staff the COI could improve both capacity and skills. "Any savings achieveable would almost certainly outweigh the additional costs involved – an extra one percentage point reduction achieved on standard commission rates would yield annual savings of at least £750,000."

Privatisation campaigns are planned by special project teams within the sponsoring government department. As well as lacking knowledge they are quickly disbanded after the launch so lessons learnt cannot be applied more widely.

The NAO recommends: "Departments responsible for privatisations should draw more fully on the technical expertise of the COI and involve it more closely from the policy and planning stages onwards."

The report says all departments prepared campaign strategies but quality varied widely.

The Department of Social Security's campaign to promote take-up of Family Credit is singled-ont for particular criticism. The first stage in Spring 1988 cost £1.6m and made extensive use of television but failed to get its message across.

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Published November 1989. Written and edited by Anne Gowan and Karen McCall.

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FT LAW REPORTS

DeLorean judgment is set aside

DSQ PROPERTY CO LTD v LOTUS CARS LTD

Chancery Division: Mr Justice Peter Gibson: Nov 24 1989

CONSPIRACY proceedings served abroad on a foreign defendant as party to proceedings served in the UK will be set aside for lack of jurisdiction if obtained by defective means in that the necessary ingredients of conspiracy were not pleaded against the UK defendants and no other legal result was specified on the claim.

Mr Justice Peter Gibson so held when setting aside leave granted to DSQ Property Co Ltd to serve proceedings out of the jurisdiction on Mr John DeLorean as fourth defendant to its action and all subsequent orders against him including judgment. The first, second and third defendants were Lotus Cars Ltd, Mrs Hazel Chapman as personal representative of deceased Lotus chairman, Mr Colin Chapman and Lotus director, Mr Frederick Bushell.

HIS LORDSHIP said that on January 28 1986 DSQ began conspiracy proceedings against Lotus, Mrs Chapman and Mr Frederick Bushell. It pleaded that the conspirators were Lotus, Mr Chapman, Mr Bushell and Mr John DeLorean.

Mr DeLorean was a US resident. He was not joined as party to the action until July 21 1987, when Mr Justice Hoffmann, on DSQ's *ex parte* application, ordered that he be added as fourth defendant and that leave be given to serve him out of the jurisdiction. Damages were claimed against him for conspiracy, deceit and breach of fiduciary duty.

Judgment in default of acknowledgement of service was entered against him on October 12 1987. He was ordered to pay $51m including interest.

Mr DeLorean took no part in the UK proceedings until 1989, after DSQ sought to enforce judgment in the US and he had failed to have the enforcement proceedings dismissed.

On July 10 1989 Mr DeLorean issued the present summons, to set aside leave to serve out of the jurisdiction, service, and all subsequent orders.

The primary attack on leave was that it was granted in excess of jurisdiction.

Order 11 rule 1(1)(c) of the Rules of Supreme Court provided there was jurisdiction if "the claim is brought against a person duly served within . . . the jurisdiction and a person out of the jurisdiction is a . . . proper party thereto."

DSQ's case was that its claim was brought against Lotus, Mrs Chapman and Mr Bushell, who were "duly served," and that Mr DeLorean was "a proper party" to that claim.

By Order 11 rule 4(2) leave was not to be granted unless the case was a proper one for service out of the jurisdiction. The plaintiff must show he had a good arguable claim and that if given leave he would have a good chance of succeeding.

Leave was granted to serve out of the jurisdiction on the basis that DSQ had a good arguable case against the first three defendants in conspiracy and that Mr DeLorean, as fellow conspirator, was party to that claim.

In *Metall und Rohstoff [1989] 3 WLR 563* the Court of Appeal held that an essential ingredient of the tort of conspiracy was that the conspirators' sole or predominant purpose was to injure the plaintiff's interests.

Mr Stamler for DSQ accepted that its conspiracy claim was bad, because there was no plea of sole or predominant purpose. He submitted, however, that the pleadings enabled DSQ to sustain a good arguable case against the first three defendants in constructive trust (see *Vandervell's Trusts (No 2) [1974] Ch 269, 321*).

In *Metall* Lord Justice Slade said that for an Order 11 application, if the plaintiff specifically stated the legal result in his pleading, he was limited to what he had pleaded, and that "to permit him to take a different course would be to encourage circumvention of the Order 11 procedures" meant to ensure that court and defendant were apprised of the nature of the claim.

To permit DSQ to argue now that the claim against the first three defendants was for a legal result other than damages for conspiracy, namely equitable compensation as constructive trustees, would be to encourage circumvention of the Order 11 procedure.

In the light of *Metall* the ground on which DSQ obtained leave to serve out of the jurisdiction and to which it must be limited, was not available to it.

If that were wrong, the pleaded facts were insufficient, without amendment, to disclose constructive trust, either in the form of a purpose trust which required pleading of payment and receipt of trust monies for a particular purpose, or as arising from a stranger's knowing assistance with the trustee's fraudulent design which required particularisation of the defendant's knowledge of dishonesty (see *Belmont Finance [1979] Ch 250*).

Accordingly, on that ground also the case did not fall within Order 11.

Mr Burton for Mr DeLorean contended that the leave, which should not have been granted, was obtained with the aid of serious non-disclosures.

It was common ground that on an *ex parte* application for leave to serve out of the jurisdiction, there was a duty on the applicant to make full and fair disclosure of material facts to the judge. If he failed to do so, the court might exercise its discretion to set aside leave.

In the present case there were material and serious non-disclosures in relation to the existence of proceedings in the US; settlement of US proceedings; evidence against pleaded misrepresentations by Mr DeLorean; and Mr DeLorean's likely defence.

Mr Burton submitted the defects in obtaining the order for leave were fundamental and entitled Mr DeLorean to an order made under the court's inherent jurisdiction, to set leave aside *ex debito justitiae*, without recourse to procedural rules for setting aside orders for irregularity at the judge's discretion (see *Isaacs [1985] AC 97, 108*).

Where there were procedural rules on applications for relief, the court would ordinarily require the applicant to follow the procedure laid down by those rules, even if it could grant the relief sought under its inherent jurisdiction.

Order 12 rule 8 applied where an applicant wished to dispute jurisdiction in proceedings to which it had been made party by irregularity in the writ or service, or in the order giving leave to serve, or on any other ground. Mr DeLorean was such an applicant.

Accordingly, by rule 8(1) he must give notice of intention to defend and, within the time limited for service of defence, apply to the court for relief.

Mr DeLorean had not given notice of intention to defend. As judgment had been obtained against him he needed the court's leave to give such notice (Order 12 rule 6(1)). The time limited for service of defence started to run once notice was given.

Rule 6(1) gave the court a discretion as to whether to give leave. Failure to bring the case within Order 11 was serious, going as it did to jurisdiction. But for the question of delay, leave would be given under rule 6(1).

Mr Stamler submitted Mr DeLorean ought not to be given leave because, having been served on August 20 1987, he deliberately stood by and allowed nearly two years to elapse before issuing the summons. He said DSQ had suffered prejudice in wasted costs and in the risk of dissipation of assets.

It was still open to DSQ to commence proceedings or amend its existing pleading in the US, and to seek Mareva type relief there if there was real risk of dissipation.

There had been no submission to the jurisdiction and particularly in the light of the seriousness of the defect, Mr DeLorean's late application was not so abusive of process as to disqualify him from obtaining leave to challenge the jurisdiction.

A penalty of $51m was far too large to pay for the delay when the applicant was a foreigner, when enforcement proceedings against him only began in January 1989 in his own country where he had assets, and when his challenge to those proceedings was not dismissed until May 1989.

Where a plaintiff could not show that he brought his case within Order 11, it would be wrong to impose a term for reimbursement which, if not complied with, would leave in force a judgment given without jurisdiction.

Mr DeLorean was given leave unconditionally under rule 6(1) to give notice to defend. In view of the absence of jurisdiction the court must, under rule 8(1), set aside leave to serve out of the jurisdiction. It followed that all subsequent orders made against Mr DeLorean would fall away.

For Mr DeLorean Michael Burton QC and Stephen Smith (Wright Webb Syrett)

For DSQ: Sam Stamler QC and Mark Templeman (DJ Freeman & Co)

Rachel Davies
Barrister

MANAGEMENT

European engineering companies

Home territories must be defended now

Nick Garnett reports on the aftermath of expansionist strategies

Is there some way of making a thumb-nail sketch of the company structure within Europe's heavy and medium manufacturing industries?

A useful, if not wholly convincing stab at this has been made by Outram Cullinan, e London-besed management strategy consultancy, one of whose specialist subjects is European engineering.

In a booklet on European engineering, OC&C has also added some conclusions about eurvival strategy in western Europe in the context of the integrated market of 1992.

OC&C, in which Coopers and Lybrand has a minority stake, divides the broadly defined European engineering sector into four types of company (see right).

The first group is made up of seven or so nationally based giants, mainly West German and French and principally in vehicle production, aerospace and telecoms. These companies have concentrated engineering and product development as well as manufacturing in their own nations. They have also tended to reinforce this by acquisitions (Mercedes-Benz's purchase of AEG and Dornier, Fiat's of Alfa Romeo).

A number of Pan-European companies, mainly from the US and Scandinavia with a few others from elsewhere in northern Europe, make up another grouping. These companies manage a dispersed manufacturing and engineering network on a European basis or are at least aiming to do so following recent mergers.

Then there are about 25 nationally-based medium-sized businesses. Small in European terms, they are often large in their specialist business sectors, particularly in home markets.

The final tier is a disparate collection of about 1,500 companies with sales of $50m to almost $3bn, many very specialist and varying from being competitive to having questionable survival prospects.

Not everyone will agree with this structure, including, no doubt, some of the companies in it. OC&C is a bit unsure about how to slot in CGE in France and GEC in the UK, now that the latter company has merged its heavy engineering business with Alsthom, CGE's heavy arm.

Some of the nationally-based medium-sized companies might object to their description. For example, the Continental European assets of GKN, at £379m, are larger than the British company's assets in the UK. Equally, some manufacturers which have relatively small sales to engineering, but are pan-European in nature, do not appear in the table; Linde, the West German fork-lift maker which has plants in the UK and France, is an example.

Aside from that, some so-called national giants look as if they might be breaking out from their borders. Siemens has bought half of Plessey in the UK and is now looking increasingly restless in power engineering. Fiat is discussing a possible merger of one of its divisions with the car-making business of Sweden's Saab-Scania.

The principle point of the OC&C paper is that companies' survival strategies in the past year or two have been overwhelmingly based on an offeneive etance rather than on defending home territory. They now need to take defence of their existing markets just as seriously as attacking the position of their competitors.

"The priority is to install both offsnsive and defensive actions as a normal way of life in the corporations," says the report. This should be done not only throngh an acquisitiou/new development team but with another team whose role it is to prepare for the day when a predator emerges and to audit existing mechanisms for defending its employer.

Many of the classic points about mounting offensive moves through mergers, acquisitions or alliances are incorporated in the paper. These include taking a realistic view of the challenge to be faced; Peugeot's attack on the UK market from within Britain has taken ten years to bear fruit since its purchase of Chrysler's operations in 1979. They also include identifying a competitor's Achilles heel and trying to find ways of exploiting that.

Ian Godden, an OC&C analyst and former BP engineer, says that many of the barriers to takeovers in different countries will remain. It is virtually impossible to acquire a company in Italy that is deemed to be of strategic importance to that economy. The shareholding and management structure in West Germany also militates against takeovers. "In the UK, though, shareholders would sell their rights for a quick buck," he argues.

The criteria for a defensive strategy are different from those associated with an offensive one, OC&C says. "It is the avoidance of a superiority complex, the identification of your own Achilles heel and the careful monitoring of competitors' moves."

All this, it says, hinges on four priorities. These include responding to competitors that are "cherry picking" profitable customers or segments, monitoring competitors' product designs and marketing approaches, and introducing strategic investment appraisal.

This latter point involves understanding the economics of manufacturing, forecasting process and product technology changes and reviewing the company's competitive positiou in manufacturing.

The fourth priority, says OC&C, should be the communication of a company's competitive strength to its challengers "and confusing them via inconsistent pricing and marketing signals."

This latter "dirty tricks" manoeuvre is ohviously not going to be suitable for many types of company but OC&C gives one example. A US plastics producer, on hearing that a European prodncer was about to invest in this growing business, started radically readjusting prices for different grades. The challenger was thereby lured into investing in a process plant hiased towards certain grades of plastic for which its competitor had recently introduced "artificial" price increases. After the competitor had invested, the defender then lowered its prices to their former level to the detriment of the challenger's profit forecasts.

European Engineering Sector

Company	Home country	Sales ($USbn)	Primary Activities
"National Giants"			
Daimler Benz	W. Germany	41.5	Vehicles, Elecs, Aircraft
Fiat	Italy	33.9	Vehicles
Siemens	W. Germany	33.5	Elecs, Elec Eng
Volkswagen	W. Germany	33.4	Vehicles
Renault	France	26.7	Vehicles
Peugeot	France	22.9	Vehicles
CGE	France	21.1	Telecoms, Elec Eng
IRI (eng divs)	Italy	na.	Heavy & Medium Eng
"Pan Europeans"			
Philips	Netherlands	28.5	Electronics
IBM	US	21.6	Computers, Office Prods
Ford Europe	US	19.6	Vehicles
ABB	Sweden/Swz	17.8	Elec Genrn & Trans Equip
GM Europe	US	17.2	Vehicles
Electrolux	Sweden	12.1	Consumer Electronics
GEC Alsthom/CGE	Anglo/French	na.	Heavy Eng
"Nationally Based Medium Sized"			
Bosch	W. Germany	16.1	Auto Electronics
Volvo	Sweden	15.8	Vehicles
BMW	W. Germany	13.8	Vehicles
Thomson	France	12.4	Consumer, Defence Elecs
GEC	UK	10.5	Elecs, Elec Eng
Brit Aerospace	UK	10.2	Aerospace, Vehicles
MAN	W. Germany	8.2	Vehicles, Engines
Saab Scania	Sweden	6.5	Vehicles, Aircraft
Olivetti	Italy	6.5	Computers, Office Prods
Aerospatiale	France	5.9	Aerospace
Nokia	Finland	5.3	Electronics
Ericsson	Sweden	5.1	Telecoms, Electronics
STC	UK	4.3	Computers, Electronics
MBB	W. Germany	3.9	Aerospace
Sulzer Bros	Switzerland	3.6	Engines, Machinery
GKN	UK	3.6	Engineering Components
Rolls-Royce	UK	3.6	Aircraft Engines
Nobel	Sweden	3.5	Machinery, Weapons
SKF	Sweden	3.5	Heavy Machinery
Hawker Siddeley	UK	3.4	Mechanical & Elec Eng
Lucas	UK	3.4	Engineering Components
Matra	France	3.2	Electronics
Dassault	France	3.1	Aerospace
Nixdorf	W. Germany	2.5	Computers, Office Prods
SNECMA	France	2.9	Aircraft Engines
Oerlikon Buhrle	Switzerland	2.8	Weapons, Machy
"Small Nationals"			
1,500 companies:	with turnover	$50m to $2.8bn	

Turnover figures for IBM, Ford and General Motors are for Europe only. CGE and GEC are partially doubled up because of their joint ventures

East Europe market opens up

Political changes in eastern Europe are already encouraging companies in capitalist societies to look at opportunities there. Asea Brown Boveri is negotiating to purchase part of the Polish power engineering industry. Two Japanese car makers, Suzuki and Daihatsu, have expressed some interest in building car plants in eastern Europe, as has Volkswagen. General Electric of the US is buying a majority stake in Tungsram, the Hungarian lighting equipment maker.

Engineering companies in West Germany are easily the best placed to develop business ventures in eastern Europe. OC&C believes Italian companies.

However, Ian Godden says British companies face a dilemma. Most tend to be weak in West Germany and in eastern Europe, with a few notable exceptions. "A lot of British companies have only reached the Netherlands so far."

Some British companies will be successful in eastern Europe if markets open up but he believes many British companies could recoil from the prospect and, instead, further entrench themselves in North America by making more acquisitions there.

Cultural differences

The social divide and internationalisation

By Michael Dixon

Consider this: "Now tell me about your family background. It doesn't make any difference, of course. But it is important."

Martin Higham, former recruitment manager of Rowntree, once overheard this as one of his competitors interviewed a student during the university "milk round".

Those words became one of Higham's favourite quotations. His object was to lampoon the snobbery that continues to influence the selection of people for better rewarded types of career. He was convinced that such stuffiness is utterly outdated in this high-technology age.

Most native English-speakers, at least, no doubt share his view. They would agree that, in modern society, people's status should depend on what they do; not on "who they are" as determined mainly by the social circumetances into which they chanced to be born.

In holding that belief, however, they are at odds with the great majority of people in the world.

The evidence lies in research ou cultural differeuces hetween nations hy Fons Trompenaars and David Wheatley who, having previously worked respectively as a professor at Wharton business school in the US and a manager with Shell, are now based at the Employment Conditions Abroad consultancy in London.

Over the past few years they have persuaded more than 10,000 people of two dozeu nationalities to complete questionnaires probing into their cultural attitudes. The questions typically consist of a statement – such as "Managers should themselves be able to answer any question their subordinates ask about the work" – followed by an invitation to those filling in the form to state the extent to which they agree with it.

Since people's views diverge even though they share a similar background, in every country a few hold the attitude at one extreme and few the complete opposite, with the bulk somewhere in the middle.

So in each case the graph of replies shows a bell-shaped curve swelling up between the two extremes. What the researchers take as their broad measure of a nation's culture is the point at which the curve hits its peak, expressed as a percentage.

The results show many marked differences, not least between East and West. For example, on the issue of whether managers should be ahle to answer subordinates' questions, the positives are led by the Japanese, with 77 per cent typically answering yes, and the Indonesians with 67. The negatives are headed by the Americans and Swedes, with 13 per cent apiece. The British are in between, with 30.

Bnt there is uo snch clear-cut division on the issue of what is the proper determinant of social and business status. As may be seen from the table, the three leading supporters of the "what you do" criterion are all English-speaking: Australia, the US and the UK. Even in those countries, however, the proportion of people holding that view is in no case much more than half.

In the other 21 nations the majorities believe the criterion should be "who you are" – and the strength of their belief seems quite independent of whether they are Eastern, South American or European.

The apparent reverence for birth and uphringing in France, particularly, chimes somewhat oddly with the sentiments of the "Declaration of the Rights of Man and of the Citizen" promulgated by the National Assembly at the time of the Revolution two centuries ago. It begins: "Men are born, and always continue, free and equal in respect of their rights. Civil distinctions, therefore, can be founded only on public ntility." But whoever may he surprised by France's position in the table, my checks show that it does not surprise the French.

Wheatley says that the variances in belief on such a basic point indicate the difficulties organisations face if they are to internationalise themselves in line with the trend towards global markets. For however firmly an Australian, US or UK based company directorate may believe that promotion to the top ought to be based on employees' practical achievements in their work, that will not be seen as a proper basis for promotion by the staff of their snbsidiaries in most other lands.

"The best policy, as far I can see, is to take a lesson from the Japanese," he adds. Their approach, wherever in the world their husiness takes them, is to find out how society functions in that particular place, and adapt themselves to it. They might not have been the first nation to say "When in Rome, do as the Romans do," but they certainly seem the best at acting on it.

Percentages of different nations believing that 'what you do' matters more than 'who you are'

Nation	%	Nation	%
Australie	60	Singapore	32
US	58	Greece	29
UK	51	Hong Kong	29
Sweden	46	India	28
Italy	44	Venezuela	28
Ireland	41	Japan	27
W. Germany	40	China	26
Pakistan	40	Belgium	25
Thailand	40	Brazil	21
Philippines	37	Austria	19
Portugal	36	Spain	18
Netherlands	35	France	17

"Where do I check in?"

"I've left my ticket in the taxi."

"Which gate is my flight?"

"My luggage has gone through and I need something from it."

"My car's outside on double yellow lines."

"I think that's my plane taking off."

"My canary's escaped."

"Can I get a coffee around here?"

"I can't do my zip up."

"Can I get into New York by helicopter?"

"What time do we get there?"

"Just how wide are the seats?"

"Do they have nappies on board?"

"Where do I get a newspaper?"

"Do they sell Russian vodka in duty free?"

"Where's the Ladies?"

"Where's the Gents?"

"Where have all the trolleys gone?"

"Is the Pink Poodle Club on 48th Street or 49th?"

"Do we get to see where the pilot sits?"

"What happens if it's full?"

"Where can I get an oil filter for a 1965 Hillman Imp in Chicago?"

"Do they take traveller's cheques in duty free?"

"Where's the London desk?"

"What do I do with this?"

"Can I go through to the Departure Lounge now?"

"Where is the Departure Lounge?"

"They've put the wrong name on my ticket."

"Can I get a bassinet for my baby?"

"I'm looking for some string."

"Does my camera have to be X-rayed?"

"I've just noticed my passport's out of date."

"I need an aspirin."

"Kann ich am J.F.K. Flughafen direkt zum Flug nach Chicago umsteigen?"

"Where's the Ambassador Lounge?"

"Do I need a Visa?"

"Can I take these as hand-luggage?"

"Can I change to a later flight?"

"What do I do now?"

"I have to phone my wife."

"Is there a phone anywhere?"

"Είναι ο Πήτερ 'Αιζντελ-Κάρπεντερ εκεί?"

"Anybody got a pen?"

"What time is it?"

"Is New York ahead or behind?"

"Can I hire a car there, from here?"

"Is it sunny in Los Angeles?"

"Will my hair dryer work in Minnesota?"

"I can't find a porter."

"My aunty's gone missing."

"Will they have any dominoes on board?"

"Are there any seats in non-smoking?"

"What's for dinner in First?"

"What film are they showing?"

"Is there a nice restaurant in Toledo?"

"How do I get into town from JFK?"

"My case is too heavy."

"How far is Philadelphia?"

"Is it on time?"

"Can I change this non-changeable ticket?"

"Can I choose my seat after I get on board?"

"I'd rather sit at the back of the plane."

"Can I order a special meal?"

"I can't find my boarding card."

"What star sign is the pilot?"

"I need to send a fax."

"Is there a wheelchair somewhere?"

"Is there a lift?"

"Do I have to be X-rayed?"

"Please, somebody."

"Which way now?"

"My seat's supposed to be reserved."

"Will they wait for me?"

"Can I change my money here?"

"What's going on?"

"How many bags am I allowed?"

"What's the code for Dayton, Ohio?"

"Is it too late to order a kosher meal?"

"What escalator?"

"Can I leave my rented car keys with someone?"

"Maybe someone will change seats with me?"

"Will we all be able to sit together?"

"Can my son sit in the cockpit?"

"Is it too late to change my flight?"

"Is it too early for the bar?"

"Will there be any film stars in First Class?"

"Who won last night's ball game?"

"I didn't hear that."

"Is it are not my wife's ticket here to pick up. ¿Qué?"

"How do I make my connection in New York?"

"Help!"

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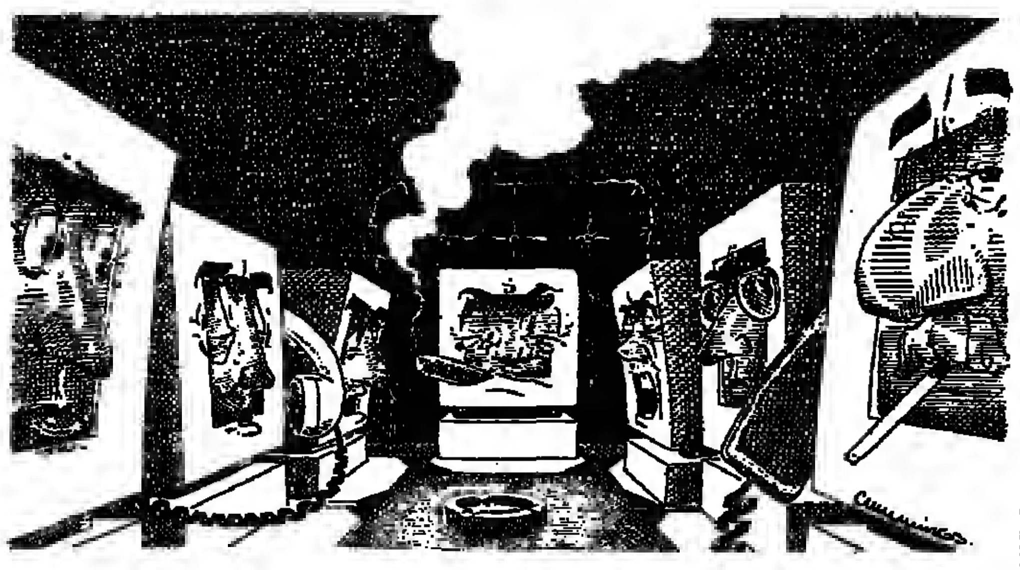
TECHNOLOGY

Hugo Dixon describes BT's digital network that will send data, voice and graphics over the phone

A picture tells a thousand words



An advanced telecommunications system being launched by British Telecom next April could put an end to the costs of physical communication and the ineffectiveness of communicating with an ordinary phone. The new system, called Integrated Services Digital Network (ISDN), is the fulfilment of a long-cherished dream among engineers of being able to combine pictures, data and voice traffic over the public telephone network.

ISDN will enable executives to carry out a desk-top conference without leaving their offices. They would be able to send documents, pictures and graphics over computer screens, make amendments and talk to one another.

Desk-top conferencing is only one application of ISDN. The system will also allow people to send each other high-speed faxes, consult image data bases in remote locations and communicate via picture phones.

ISDN promises to revolutionise the way business is done. It could make a reality out of working from home, because people would be able to operate almost as effectively as from the office. And it will bring nearer the much-talked about ideal of the global village, as ISDN systems spread across the world.

ISDN is the next big step in telecommunications, bringing to the customer the benefits of the huge investment in digital or computerised telephone exchanges that has occurred in Britain and elsewhere during most of the 1980s.

Currently the vast majority of people are connected to their local exchanges by old-fashioned transmission technology. Tha new digital connections will retain the existing copper wires but, by adding special electronic black boxes at each end, they will allow a range of clever services to be offered.

One benefit of the new system is that calls will be connected more rapidly than before and, once the connection has been made, the sound will be clearer.

More importantly, ISDN combines three separate communications channels over a single copper wire. Two of these channels – the "B" channels – carry information at seven times the speed that is possible over the current network. This is what makes possible aervices such as high-speed fax and the transfer of pictures and documents, which take an inordinately long time to send under the present system.

The existence of two channels opens up the possibility of multi-media communications such as desk-top conferencing and picture phones, because one channel can be used to carry the picture while the other is devoted to the voice. Alternatively, the two channels can be set aside for voice conversations – one bsing used for outgoing calls and the other for incoming calls. The permutations are many.

The third channel – the "D" channel – is used for routing the calls to their destinations and providing a series of intelligent features. The most important is probably to identify the phone number of any caller, a feature known as calling line identification.

This feature could be powerful in any telemarketing function if combined with a computerised customer data base. For example, as soon as a stockbroker received a call from a client, all the details of a client's share portfolio could flash up automatically on the computer screen.

BT has ordered equipment to cater for 90,000 ISDN lines from STC, the UK electronics group, and expects to use them up in the first 18 months after the system opens. Because only a proportion of its exchanges are digital, ISDN will not be available on a nationwide basis from day one, although 80 per cent of businesses should have access by the end of next year.

The costs for using ISDN will be the same as BT's normal call charges. However, there will be a premium – so far unspecified – for connections and line rentals. On top of this, customers will either have to buy new terminals or pay for their existing terminals to be adapted to ISDN. For example, ICL, STC's computer subsidiary, is charging £2,000 for a package to convert an ordinary personal computer into a desktop conferencing terminal.

The effect of this charging structure is that ISDN is initially likely to appeal to the business rather than the residential user. At present, most large businesses have sophisticated computer applications that they run on private networks connecting their main sites. The introduction of ISDN will mean that it is economical to extend these applications to smaller branch offices and to the company's customers and suppliers, says Howard Brown, who is responsible for marketing ISDN at BT.

Large construction projects, such as the Channel Tunnel or the development of Canary Wharf in London's Docklands, could benefit because architects, builders and financiers would be able to examine and discuss new designs over a telecommunications link. Similarly, there could be applications in education, with professors giving lectures to students in remote classrooms. And politicians may derive benefits from being able to discuss the text of a sensitive speech or manifesto via e telecommunications link.

More generally, ISDN will make scarce expertise more widely available, according to Dermot McCarthy, network marketing manager of ICL Financial Services. That expertise could either be a living expert or an expert system – a computerised simulation of an expert.

In the longer run, technological advances and economies of scale are likely to bring ISDN within range of the ordinary residential consumer. By the mid-1990s BT expects the price of an ISDN line – with its two "B" channels and one "D" channel – to have fallen below the price of two ordinary phone lines. ISDN would be the normal choice for a customer wanting more than one line.

At around the same time, picture phones will probably be available at a reasonable cost, though it remains to be seen whether people want to see moving pictures of each other when they make a call.

Although British Telecom is now moving ahead with implementing Integrated Services Digital Network, it is France Telecom that is leading Europe in rolling out the new system combining picture, data and voice traffic down a single wire.

Its ISDN system, Numeris, began in Brittany in December 1987 and is accessible to 50 per cent of French businesses. By the end of next year it will be available nationwide.

The fast deployment of Numeris is the latest example of the pride with which the French take modernisation of their telecommunications infrastructure. It has also been helped by the fact that France was one of the first countries in the world to convert its old telephone exchanges to modern digital exchanges, which are a prerequisite for offering ISDN. By 1990, 75 per cent of local exchanges and 81 per cent of transit exchanges will be digital.

While ISDN is clearly technologically superior to the ordinary phone service, an international debate still rages over whether anyone really wants to use it. Its success seems to depend on two factors: whether it makes possible a range of genuinely useful applications; and whether the charges are reasonable compared with the ordinary phone service.

France Telecom does not yet have any definitive answers to either of these questions. But its strategy for implementing Numeris is designed to minimise the risk of failure.

The first stage, explains Jean-Pierre Temime, director of Numeris, is to promote the development of imaginative applications by forming partnerships with the private sector. The average cost of developing each application is FFr1m-FFr2m (£100,000-£200,000), of which France Telecom would typically contribute about a third.

Each application would normally be developed for a particular company or industry. However, France Telecom publicises the benefits of each partnership with the aim of persuading other companies with similar needs to embrace ISDN.

So far, about 40 applications have been developed in this way and about 1,500 customers are connected to the network. Typical examples include: a database containing pictures of houses for sale, which estate agents can show their clients over a computer screen; the use of slow-scan cameras to provide telesurveillance; and the transfer of X-rays and other medical images in emergency cases.

The first stage has concentrated on transmission of images and documents. But Temime expects Numeris to take off from next year when the second and third stages are reached.

The second stage will be occur as companies replace their private telephone exchanges. New computerised exchanges will be adapted to ISDN as a matter of course, says Temime, and companies will therefore have an incentive to connect to the Numeris service. Although this may cost them a little more than using the ordinary service, he thinks companies will be attracted by the ability to send information at much faster speeds, and by the intelligence and flexibility of Numeris.

The third stage, which Temime also thinks will begin in 1990, will be the use of ISDN to connect to computers. Although corporations will still use private telecommunications networks to connect their main sites, smaller offices will get access to the main computer data bases via Numeris.

Initially, the price for using Numeris may dster widespread usage. France Telecom is charging FFr675 for installing a line and FFr300 as a monthly subscription. Voice calls cost the same as a normal call but if the system is used to carry data there is an 80 per cent premium.

On top of this, customers either have to buy new equipment or convert their existing equipment to work with Numeris. An interface for a personal compnter costs a further FFr300 a month. Temime says these costs will fall rapidly once the service become established on e wider basis and economies of scale are built up. But that depends on enough people being attracted at today's prices.

Reliance puts the machines in order

China's entry into the cheap end of international photographic film market and Kodak's attempt to hold on to its strong position at the top end of the market depend on sophisticated electronic control of the film production equipment.

Both the Shanghai General Photosensitive Film Factory and Kodak's UK plant in Harrow, west of London, are installing a digital Distributed Control System (DCS) from Reliance Electric, the US-based electrical equipment company.

DCS and similar control systems supplied by other electrical companies such as GEC, Siemens and ABB go a step beyond the programmable logic controller (PCL) which is commonplace in modern factories. DCS is an industrial computer that co-ordinates up to 50 machines working together in complex manufacturing processes.

It is particularly useful in processes which involve winding or unwinding long lengths of material such as plastic film, paper, textile or steel sheet. In these applications the speed of the production machinery must be co-ordinated so that the material remains at the correct tension. If one machine jams, for example, there will be an increase in tension and a risk of the material breaking further down the line, while the material will pile up in front of the blockage.

DCS works in "real time", controlling events as they happen. The running speed of machines under DCS control can be adjusted automatically within a few thousandths of a second in response to unexpected problems.

A further advantage of DCS is that it makes the manufacturing process more flexible. Switching the production line to make a small batch of a specialist high-value product may be uneconomical if the individual machines have to be reset manually by an operator working from notes scribbled on the back of a cigarette packet. The same operation might be profitable if all the equipment could be adjusted centrally by DCS.

Different manufacturing routines can be held on DCS's 80 kByte application memory or on a larger factory computer. The central processor is a Motorola 68000 and the system's internal communications are based on the Intel Multibus. It can be programmed in any of three computer languages (Ladder Logic, Control Block and Enhanced Basic).

Reliance Electric is an old-established manufacturer of industrial motors and control equipment, based in Cleveland, Ohio, with factories in nine countries including the UK (Telford, Shropshire). The company was part of the Exxon group from 1979 to 1986 when it gained independence through a leveraged buyout. Its net earnings last year were $24m on sales of $1.3bn.

DCS was developed during the mid-1980s in the US. One of the first applications was to control the movement of one of Nasa's mobile service towers at Cape Canaveral; the 2,000-ton tower has to move away from the launch pad at 50 feet per second with less than an inch side-to-side slew. DCS is now being sold by Reliance subsidiaries worldwide, both to end-users such as Kodak and to "original equipment manufacturers" (OEMs) which incorporate DCS in their own production machinery. The price ranges from about £30,000 for a system controlling three machines to more than £1m for a network of 40.

Two of the largest OEMs in the UK are the Bronx Engineering company of Stourbridge (part of the Verson International group) and Salem Herr-Voss of Derby (a subsidiary of the US-based Salem corporation).

Bronx specialises in installing "colour coating" machinery which enables steel companies to sell pre-painted metal coils to domestic eppliance manufacturers. Eleven of the 12 colour coating lines built by Bronx have Reliance control equipment; the customers include Tubisud in Italy, Decosteel in Belgium and Hoogovens in the Netherlands.

Salem Herr-Voss also makes equipment for the steel industry, concentrating on strip mills. Recent large projects with DCS include a stainless steel slitting line (which cuts down the width of steel strip) for Krupp Stahl of West Germany and a tension levelling line for British Steel.

Clive Cookson

TECHNOLOGY MARKET

Mascagni's masquerade

TARRYTOWN, NY

Is there an opera composer whom our historically minded age has not got round to reviving? Mascagni's *Le maschere* has just had its American première, hard on the heels of his *Iris*, *Zanetto*, and *Lodoletta* from the New Jersey Opera, and a concert performance of *Silvano* in the First Presbyterian Church of Englewood, New Jersey. *Le maschere* is the opera for which in 1901 seven simultaneous premières in leading Italian theatres were planned: those of Milan (with Caruso, Toscanini conducting), Rome, Naples, Venice, Turin, Genoa, and Verona. Six of them took place; the Naples performance was delayed for two days because the tenor Anselmi was ill.

The opera was a flop. Illica's libretto is a *commedia dell'arte* romp, ill-constructed, unfocussed, and rather silly. There are many characters – nine principals – so everything tends to be shortbreathed. Mascagni's score ranges from Paisiello to Puccini and closes with a grandiose choral hymn: "O Italian masquerade that has given inspired, eternal art to all the world... you rise again, to destroy foreign, fatal delusions." But there are many attractive, delicately worked episodes along the way; they include a Bellini-like air for Colombina, and a *Falstaff* homage in the second finale.

The performance was given by the Westchester Opera, in the pleasing 1885 theatre of Tarrytown, on the Hudson just north of New York. The show was flawed by the unhappy decision of the producer, Franco Gratale, to play the young lovers, Rosaura and Florindo, not as the eternal young lovers of *commedia dell'arte* but as overblown Milanov and Pavarotti parodies. Adriana La Ganke gestured extravagantly in the grand manner, and clung Milanov-like to columns (her irritation when one of them would not support her was quite a good joke). Neil Breeden stood bulkily and sang, addressing everything straight out to the audience, with bland features; and, yes, he did pull out a white handkerchief in his serenade.

One hardly likes to mention *Le maschere* in a breath with *Così*, but it is a subtler, cleverer, and more various work than was here apparent. Emotion and larkiness, in quicksilver transition and even in combination, need to be balanced. In Tarrytown the love music was guyed – including the most striking number in the opera, Rosaura's last aria. She intends to feign an outburst but, in Illica's words, "is overcome by emotion and begins to weep in truth," reaching the climax "con gran passione." And Mascagni responds with music in his own most passionate vein.

The cast was composed mainly of young singers who sing Pinkerton, Escamillo, Aida, Gilda, etc. round the country for the smaller companies. Philip Tatum, the Brighella, had a fresh tenor that flowed easily and naturally. Steven Larsen's conducting could have been lighter, and the orchestra sounded under rehearsed. Anthony Cappa's decor, in shiny materials, was parish-hall Pizzi. Still, one doesn't see *Le maschere* every day of the week – and it does have its niche in operatic history. Bravo, Tarrytown!

Andrew Porter

TELEVISION

Common sense brought into the House

Remember the televising of the House of Commons? You know, that place full of green leather benches with a presenter in a full length wig and the world's biggest chat-show line up: Ken Livingstone, Norman Tebbit, Edwina Currie, all that lot. Having begun in a blaze of publicity a fortnight ago, the coverage of the House has declined to a level of almost unnoticeable routine extraordinarily quickly; not so much a nine-day as a nine-hour wonder. Of course, that is not to say that we have seen the last of the controversy. Politicians who object to television extending the public gallery into every home will no doubt campaign for the removal of the cameras.

But the speed with which the whole thing seems to have been accepted by viewers as a normal part of the output – with highlights on the news programmes, a summary of the previous day's business on BBC2's morning programme, *Westminster*, Question Time on *Westminster Live* (also on BBC2), a round-up of the week's highlights on C4 on *Sunday* mornings in *A Week In Politics*, and, for those with dishes, continuous coverage for eight hours a day on Astra Channel 9 – has been quite remarkable.

Several points have quickly become clear:

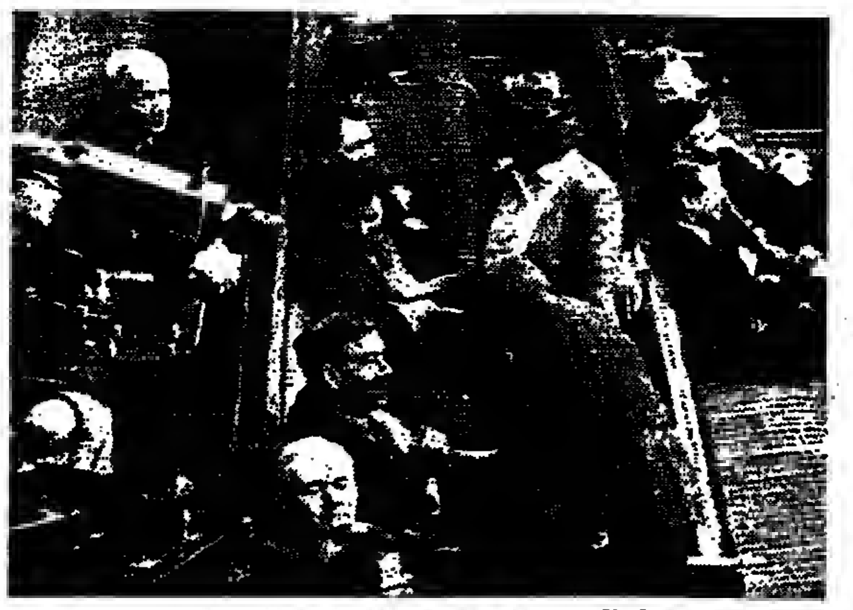
■ The uninterrupted satellite coverage is a worthy initiative, but, lacking even a single reporter giving a voice-over commentary, it needs captions to show who is speaking.

■ Just as the Canadians predicted, British MPs are "doughnutting" (forming a stodgy circle around the current speaker to give the impression of packed benches) but to little effect because we are seeing wide shots of the house often enough to make the artificiality of their antics quite clear: yards of empty benches with tight little groups huddled in front of the lens.

■ Some of the most informative material is going to emerge from the select committees, and television addicts may find that coverage of these is what really hooks them.

■ Broadcasters capable of giving a good running commentary on Parliamentary activities, supplying enough guidance but not inundating us with superfluous information, are going to be as rare as good sport commentators – who do a similar job.

■ The camera angles necessitated by the shape of the chamber, the rake of the benches, and the high positions of the cameras are not ideal: too often the picture shows a speaker flanked and backed by headless bodies which scratch, wriggle, and fiddle with spectacles in the most distracting way. Allowing the broadcasters to zoom in to a bigger closeup excluding those distractions, or to distance them by cutting to a wider mid-shot, would help greatly.



Cameras in parliament: "doughnutting" seen to little effect

■ You get a better idea of the diversity of the UK from the Commons coverage than from the rest of television: Welsh, Scottish, Irish, Midlands, Northern, and other regional accents are heard much more often here than in the general run of programmes.

However, the question raised most frequently about the televising of the House is whether it will change Parliament, Parliamentary procedure, and even the politicians themselves. And the answer, which is pretty clear after as little as two weeks coverage, is: yes, of course it will. But there is, surely, a more important question: given that television will cause changes is that a good or a bad thing?

Of the fact that the cameras *will* cause change, there can be no doubt. They have already done so. Overnight, front benchers have abandoned their habit of putting their feet on the table. Is this the prying electronic eye destroying ancient and glorious traditions? Or an example of public scrutiny cleaning up sloppy habits?

During *A Week In Politics*, Vincent Hanna (looking like the "After" picture in one of those slimming ads, and consequently almost unrecognisable) suggested to Sir Peter Emery, chairman of the Commons Procedure Committee, that it might be time for MPs to abandon some of their more baffling anachronisms, such as referring to questions solely by numbers, and to each other as "The Right Honourable and Learned Member for Manchester Darkside" or whatever.

To those who have been following the televising of the House this must have sounded a rather sensible suggestion since there were several examples in the opening few days of Members forgetting the correct form of words and stuttering or stopping entirely. Common sense suggests that they should be allowed to say "As Charlie Farnsbarns pointed out a moment ago . . ."

Yet Sir Peter was most indignant. "It isn't for television to dictate to Parliament," he said. "It's often repetitious and tedious, but that's how democracy works." Parliament was not entertainment, and it was not there for the benefit of the television cameras. This surely, is just the sort of pomposity that television may usefully begin to undermine.

Parliament is not there to perpetuate quaint traditions, nor even to serve some abstract ideal called "democracy." It is there to serve *us*, the electorate. Democracy is one of the means we use to achieve our ends, and television could well become an even more integral part of the democratic process, since an uninformed electorate can be highly dangerous. The idea that democracy is best served by politicians addressing one another in a secret code, as in some masonic ritual, is a most peculiar one.

It has become clear that – just as the Jeremiahs warned us – the politicians who were already favourites with the broadcasters will prove to be most effective in front of the Commons cameras. The best session last week was between Robin Cook and Kenneth Clarke, on the subject of the NHS. Both men are already well established broadcasters, but both are also acknowledged to have a good command of the chamber, so in this instance television is not bending or misrepresenting reality.

But suppose it was: imagine that some hitherto unnoticed backbench MP turned out to be a television natural whose career was greatly boosted by his "performance" in front of the Commons cameras. Would that be such a heinous thing? The successful politicians in any age have always been those who best mastered the contemporary means of communication, whether the quill pen or the radio talk. Nobody ever suggested that Gladstone was somehow "cheating" or being un-Parliamentary when he undertook the Midlothian campaign in 1879 – which, incidentally, was a deliberate attempt not only to exploit his powers of oratory but to address the entire nation via a rapidly expanding national press recently "de-regulated" with the abolition of the Stamp Tax.

The worst sin of all, we are told, is that instead of conveying the full complexity and gravitas of Parliamentary proceedings to the public, television will reduce the entire business to "sound bites," those punchy 10-second phases which can be slotted so easily into a short news bulletin. Again, it must be said that the first fortnight of coverage has proved that this does, indeed, happen. But, once more, we need to ask, is this necessarily such a Bad Thing?

Too often when television is criticised some idealised alternative is implied but not explained: "children watch too much television" (implying, if only they did not, they would be reading Arthur Ransome, when actually they would probably be defacing bus shelters); "television has killed the art of making your own entertainment" (implying, if it weren't for the box we would be round the piano singing in five-part harmony, when actually we would probably be fighting like cats and dogs).

The unspoken implication from those who attack television for reducing Parliament to sound bites is that, if it weren't for this cheapening process, bus drivers would be rushing home of an evening to devour Hansard. The point about the brief and pithy phrase from Neil Kinnock or Margaret Thatcher on the news is that it is better than nothing at all from inside the House. Furthermore, it is a reminder, for the interested minority who want it, that there will be much fuller coverage somewhere else on television.

Nobody argues that letting cameras into the Commons will suddenly produce a highly sophisticated electorate, all panting to watch five hour debates on foreign policy. The argument is that in this day and age it is absurd to exclude all the members of the public who could so easily attend via television if they wanted to. This fortnight has greatly strengthened the argument, and it is increasingly difficult to believe that the cameras will ever depart.

Christopher Dunkley

Sirry Ella Magnus

WIGMORE HALL

From being an award winner at Aldeburgh a few years ago, the Icelandic mezzo-soprano Sirry Ella Magnus has moved on to a varied career. Opera has had a place in it, especially at her home company, the National Theatre in Iceland, but masterclasses with Hüsch and Souzay have pointed her towards the song repertoire as well.

At her Wigmore Hall recital on Monday she displayed a quite sizeable voice, handsome in its own way, well-projected, if a trifle hard in the Scandinavian manner. But what it lacks is ease of production when the singer is not going at full strength. Then the voice does not move around easily and intonation suffers badly, as it did in almost all the quieter pieces in the first half of the programme.

This was a shame, as it was here that she introduced us to a selection of songs from her own country. Mostly written in the early part of this century, these comprised a selection from such composers as Halldórsson, Leifs and Ísólfsson. All wrote in an easily attractive style, with rolling arpeggios supporting light, romantic melodies, richly played here by Geoffrey Parsons, and one can imagine them floating along on a liquid vocal line.

That Miss Magnus could not quite get them to do so was to be regretted. Nor was her group of Delius songs to Scandinavian texts translated into English – a clever idea – entirely successful. But with the arrival of Sibelius and an opportunity to cut the restraining bonds that had been holding the voice back, all the technical difficulties seemed to disappear and she gave us some fine, outgoing singing in the big Chaikovsky-like settings.

A small group of Italian songs completed the programme. Tuning no longer seemed a problem and, happily, spontaneity also surfaced, albeit late in the day. By the end the positive features of this artist just won the upper hand: it would be interesting to hear her in opera, where one suspects she might be more at her ease.

Richard Fairman

All-Asian Tartuffe

The National Theatre is mounting a mobile production of Moliere's *Tartuffe*, directed by Jatinda Verma in his own adaptation and with an all-Asian cast. Verma is the artistic director of Tara Arts.

Ode to St Cecilia

THE PLACE

A dust-sheeted room with billowing net curtains is the setting for Steve Shill's profoundly resonant exploration of cultural redundancy. It is to this room that his orchestra arrive, dapper in their concert best, for the St Cecilia's day festival that never happens. Their patron, it transpires through a series of exasperated telephone calls, has decided to go shooting instead.

Disheartened and forgotten, their behaviour deteriorates into the savage rituals of the dispossessed: a game of ball becomes a grim expression of sexual violence between a man and a woman who have forgotten how to communicate; a lampshade is viciously vandalised by a girl who finds momentary purpose in the effort to reach it with her scissors; a protesting inadequate is casually and ritualistically mugged by the other men in the room. After an hour (i.e. a night) locked into the petty brutalities of boredom, the players go out the way they arrived, taking with them the paintings from the walls.

Steve Shill worked with a group of performing arts students from Leicester Polytechnic to produce this disturbing piece – a *Lord of the Flies* for the 1980s – which comes to London via the National Student Drama Festival and Edinburgh, where it was singled out by Michael Coveney as one of the potentially outstanding productions of the year. There is nothing obvious or overwrought in a work which has echoes of Peter Greenaway and even snatches of Hoffnung's cartoon humour.

Shill's great strength as a writer and director is his ability to sustain contradictions of texture, tone and intention. His players are symbols of a gross cultural neglect, instruments of artistic expression, but they are also individuals whose monologues paint a comically mundane picture of life as a touring musician. As people, they are more concerned with the logistics of transporting harps and double basses from A to B than with rehearsing once they arrive.

This grasp of humanity anchors the piece firmly to the ground, where the swell of Purcell's music, the eccentric configurations on stage, and the incidental sounds of changing times and weather outside it, try to sweep it into the thin, refined air of abstract performance. "Art is hard. Music is difficult" insists the orchestra director in a valiant morning-after attempt to rally the troops. "The bus will be leaving in five minutes." There, in one of many nutshells, it is.

Claire Armitstead

Barnaby and the Old Boys

VAUDEVILLE THEATRE

The cheer one feels rising in the gorge at the sight of a new play on a West End stage with a cast of ten characters is promptly stifled by the play itself. Keith Baxter's Christmas family gathering in South Wales, where they keep the homophobic fires burning, is melodramatic but inert, modern but old-fashioned, nasty but nice, shocking but staid.

Judging by Martin Hoyle's report on the première at Theatr Clwyd, Mold, two and a half years ago, the author, now playing the Bevanite Labour MP who has refused to trim on the disarmament issue, has usurped his own brother in the opening scene. This recounts Hywel Morgan's return to base from Seattle (it was Canada) in a pool of light under a soaring metallic grid representing the Severn Bridge.

Douglas Heap's scenic stairway is then removed forever in favour of a dingy olive interior, a home of two knocked together railway carriages. Hywel has been away for 15 years, qualified as a tree surgeon and settled down with a young doctor who tended him after an accident.

The doctor is Barnaby, a strapping black athlete whom Hywel cheerfully introduces, as if out of a hat, to his two brothers, their wives and his jittery dypeomaniac sister, Glynis, herself married to Victor, a Lancastrian philistine and incipient queer basher.

The play is riven with a cloying, recriminatory sexual angst of the sort to make Ibsen and O'Neill sound shy and retiring. To underline his clodhopping sociological point, Baxter's MP, the only Welsh rugby international in the House until he took the Green valley veil, is researching a tome into pre-Arthurian myths and legends.

Who needs it, nudge nudge, with this contemporary tribal ritual of Christmas and its Old Boys rugger match and subsequent party, with chaps in fancy dress frocks and women sipping Scotch before breakfast?

It is like Ayckbourn's Christmas catastrophes without the nuance of writing and skill of structure. The expressions of disgust at the boys' relationship are beginning to gnaw away, too, at the spirited friendships of the young nephew and niece. But having set up the party, Baxter can only manipulate the characters into a spotlight one after another to tell their stories.

So Barnaby, wonderfully played by Eamonn Walker, tells Jill Gascoine's rather correctly broad-minded ex-MP's wife how he escaped the ghetto through games and a lucky break ("It's really hard to be openly gay in sports" is typical of writing that might be funny if it didn't sound so ludicrous).

The MP, sozzled, drowns his bitterness at the party that ditched him. Best of all, because the scene is so touchingly, tenderly played by Deborah Norton, Glynis laments her tedious non-sexual existence with Victor ("Do you think I've ever had an orgasm?").

And Victor jeers at the nancy-boys, is sick on the landing in the night, initiates an unfounded AIDS scare and finally causes mayhem with a broken bottle.

A charitable view of the play would be to say that it confronts prejudice and ignorance about sexual behaviour in a classic stage homecoming format. Otherwise, you might say that a powerful tone of self-pitying special pleading is scuppered by unlikely, ill-prepared plot developments.

Toby Robertson's new production, arriving in town via the Nuffield, Southampton, with three of the original cast, veers towards mawkishness but certainly pulls no punches in the final scenes, where Brian Croucher's Victor becomes a terrifying vigilante avenger.

Jennifer Hilary is elegant and steely as the rich bitch, Robert Gwilym plausibly reasonable and devoted as Hywel.

Michael Coveney

A Midsummer Night's Dream

BARBICAN THEATRE

John Caird's production of *The Dream* arrives from Stratford as richly festooned with praise as that famous moonlit bank is with vegetation; and equally heavily garlanded with gimmicks, cluttered with comic business, asphyxiated with ideas.

The *Brideshead* style is suitable for the young lovers. This is a Commem ball night's dream. Lysander has won Hermia with toys and dolls – Amanda Bellamy's sometimes inaudible romantic twittering makes a childish game of elopement, just as the other young people's pyjama-clad woodland wanderings seem apt to a midnight jape. One of the production's most interesting elements is its location in a context of classic English humour (thus Puck's grey shorts and school cap and the recall Richmal Crompton's William); but promising themes are interspersed with blank patches as epitomised by an ominous recrudescence of that bad old RSC plague, the interminable company dance.

The paradoxical impression remains of a production hell-bent on comedy yet totally without lightness. When the director's final resort is to make characters scream at the top of their voices, something is wrong. The impact is as clumping as the jolly, sturdily-shod fairies; as – heaven help us – Disney-like as Sue Blane's fairy set with its tree-top world of old bikes, hardware and musical instruments.

The fairies are deprived of menace: no feeling that these elementals have a hot line to nature that mortals should beware. John Carlisle's Oberon tries to compensate by emphatically overloading his lines: the verse buckles like a blade of grass under a sack of coal. And the fairies' comic weight undercuts the base mechanicals, here individually undercharacterised though their *Pyramus* throws up a delightful Thisbe in Graham Turner.

The children are enchanting, as are the tiny asses' heads the fairies sport in deference to the current favourite – Bottom's own donkey's head is the best ever, mobile of eye, ear and lip. Two performances stand out: Richard McCabe's pugnacious, mugging Puck, and Stephen Simms' Lysander who combines the looks of a romantic lead with (far rarer) a self-deflating and natural comic style: the sort of actor that has almost slipped into extinction since Cary Grant. Those who know the play little and expect less will enjoy it all.

Martin Hoyle

SALEROOM

Record for reduced 'Rape'

A bronze group of the "Rape of a Sabine," 23¼ inches high, by the late 16th century Florentine master Giambologna sold for £2.75m at Christie's yesterday to an anonymous telephone bidder. It was an auction record price for a Renaissance bronze, and around double the estimate.

The bronze is a reduction of Giambologna's most famous marble sculpture, of three bodies intertwined, the Roman carrying off the girl above the head of a crouching bearded Sabine, which has been a landmark in Florence since 1583. At least two bronze copies were made at the time and this example, signed by the artist, only re-surfaced recently.

Giambologna also proved the inspiration for the second most expensive lot in the sale, a marble group, eight feet high, of Samson bludgeoning the Philistines, produced in Florence in the early 18th century by Vincenzo Foggini. Giambologna's Samson (now in the V&A) left the city in 1601 but the authorities were anxious for a replacement. However the Foggini was sold around 1750 to the young Lord Malton who shipped it back to the family home, Wentworth Woodhouse in Yorkshire. There it remained until 1986 when Christie's sold it for £320,000. The minimal improvement in price yesterday shows the danger of returning even masterpieces to the market too quickly.

In the same sale, which totalled £4.2m with 20 per cent unsold, Loggatt, bidding on behalf of the National Portrait Gallery, paid £115,500 (as against a £30,000 top estimate) for a marble bust of William Pitt, Earl of Chatham, from the studio of Joseph Wilton.

There was plenty of excitement at Sotheby's especially in the bidding for four Hebrew manuscripts which the British Rail Pension Fund had acquired in the late 1970s from the collection of David Solomon Sassoon. Toporowitch, a dealer in Judaica, paid £2,035,000 (top estimate £800,000) for a Hebrew Bible, possibly made in Babylon around 900 AD, one of the five primary manuscripts of the Bible in Hebrew. The Pension Fund bought it for £179,050 in 1978.

Phillips had its best ever Old Master sale with a total of £2.6m, but its highlight was an auction record for a bicycle – £22,000 paid for a BSA Otto Dicycle (sic) of 1881, which naturally has no handlebars. Christie's South Kensington also set a record – £33,000 for a picture frame, George II period. This was bought by a sharp eyed dealer at Sotheby's Thoresby Hall sale in June this year for £15,400, including a picture – since sold separately.

Antony Thorncroft

ARTS GUIDE

December 1-7

THEATRE

London

Jeffrey Bernard is Unwell (Apollo). Brilliant performance by Peter O'Toole as an alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing, Ned Sherrin directs (437 2663).

A Little Night Music (Piccadilly). Fine revival by Ian Judge imported from Chichester, of Sondheim's 1973 Schlagobers version of a Bergman film. A beautiful score, composed mostly in waltz time, is touchingly performed by Lila Kedrova, Dorothy Tutin (her best work to years), Peter McEnery and Susan Hampshire (867 1118).

M. Butterfly (Shaftesbury). Peter Egan has taken over from Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical in contrast with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town*, *West Side Story* and *Gypsy*. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat who whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy London, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

A Christmas Carol (Goodman). For the 12th year, the Goodman company does its holiday thing, with William J. Norris as Scrooge for the 11th year, but a new director, Steve Scott, and new adaptation by Tom Creamer promise to refresh the familiar. Ends Dec 30 (443 3800).

Tokyo

Kabuki. At the National Theatre (265 7411). *Hokaibo* (also known as *Sumidagawa*). Living National Treasure, Baiko, leads a top-rank cast in a lively lowlife piece about a con-man who disguises himself as a priest. At Kabuki-za (541 3131): two mixed programmes, at 11am and 4.30pm, featuring mainly younger kabuki actors. Both theatres have helpful English programmes and earphone commentary. (Visitors to Kyoto should note that there are also all-star kabuki performances this month at the Minami-za Theatre, before its demolition).

Kokunsenya Gassen. New play written and directed by Hideki Noda, loosely based on a famous puppet play by Chikamatsu. An exuberant comic-strip travesty of Japanese myth and history, with brilliant Pop Art sets and lots of colour and movement. The verbal humour may be beyond most non-Japanese, but this is nevertheless a most enjoyable production. (Ginza Saison Theatre (5478 0771)).

Bunraku. The sophisticated puppet theatre is a major element in Japan's cultural heritage. At 5pm: extracts from *Yoshitsune Senbonzakura (The Thousand Cherry Trees)*, a historical drama of mediaeval times. At 11am and 2pm: *Heike Nyogo ga Shima*, by Chikamatsu Monzaemon, sometimes called the Shakespeare of Japan. Preceded by a lecture/demonstration. Since the matinees are intended mainly for schoolchildren, expect the audience to be boisterous. Earphone commentary in English available at the theatre. Opens Thur.

Noh. *Tasuta*. A travelling priest, a goddess and a sacred maple tree are the main elements in this stately dance piece. National Noh Theatre (Wed at 1pm) (423 1331). Other Noh theatres are generally open only at weekends (Check local press for details).

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700
Wednesday December 6 1989

Thatcher's future

CONSERVATIVE members of Parliament demonstrated an impressive level of support for Mrs Margaret Thatcher yesterday, when 314 out of a possible 374 of them endorsed her leadership in a contested vote. The remaining 60 either voted for her opponent, Sir Anthony Meyer, spoilt their papers, or did not vote. This represents a positive vote of 84 per cent in favour of the British Prime Minister's continuation in office. In any normal circumstance it could be regarded as a strong confirmation that Tory MPs are satisfied with her 14 years of leadership.

Yet circumstances are not normal. Mrs Thatcher has not been challenged before. The Government is still accident-prone. The present long stream of political disasters started with the bungled Cabinet reshuffle in July, gathered force with the resignation of Mr Nigel Lawson as Chancellor of the Exchequer in October, and is still in full flood today. The latest upset is the reminder that in August 1988 the Government sold the Rover Group to British Aerospace at a knock-down price of £150m. This was, in the words of the National Audit Office, "significantly short of the real value of the company." On the face of it, the Government is at the very least culpable on the ground of poor management of the taxpayers' interest, and, perhaps, open to the more serious charge of deceiving Parliament, the EC and the public.

Labour lead

Meanwhile, the outlook for the economy is politically dispiriting. While interest rates and inflation remain high, the lead enjoyed by the Labour party is likely to stay in double figures. It is even possible to envisage the continuation of a commanding Labour lead beyond a return to intimations of Tory prosperity in (say) late 1991. For the legislation planned for the current session of Parliament contains a number of potentially unpopular measures, of which the bill to reform the health service and the proposed scheme for student loans are but two. Measures already enacted, such as the introduction of the poll tax and the privatisation of water, are widely opposed.

That is not all. The difficult second half of the current year has served to paint a picture of a sorely divided Tory party – just as the Labour Party, under Mr Neil Kinnock, is managing to present itself as more united, and less ideologically threatening, than at any time since 1945. This picture will not necessarily be dispelled by yesterday's vote. The danger of a Conservative split over the Prime Minister's approach to the European Community may well be exacerbated next weekend when the 12 heads of Government meet at Strasbourg.

Competent personnel

These many political troubles have not so far upset the normal conduct of everyday Government. The Prime Minister moved remarkably quickly to re-establish "business as usual" when Mr Lawson stepped down, and it is to her credit that in terms of personnel her administration looks as competent as it has at any time since she first took office in 1979. The new Chancellor, Mr John Major, has failed to clarify his approach to exchange rate policy, but that leaves the markets no worse off than they were under Mr Lawson. There need be no general election before mid-1992. Yet the season of troubles will have to be concluded before then if "business as usual" is to be maintained.

The likelihood is that the Conservative Party as a whole will support Mrs Thatcher right through a fourth general election if there are distinct signs of improvement in the Government's performance. Yet it is also now plain that Mrs Thatcher cannot be certain that there will be no further attempt to replace her if there is no improvement in either the party's standing in the polls, or the economic outlook – preferably both. The Prime Minister brought many benefits to Britain during her first two terms of office. There is room for doubt as to whether her strategies, her instincts, and her methods of work are the best for either the country or the Conservative Party in the 1990s. She has about a year in which to demonstrate that they are.

More trouble at US thrifts

THE RESIGNATION of Mr Danny Wall as chief regulator of the US savings and loan industry serves as one more reminder of the depth of the problems into which the US thrifts were allowed to sink in the Reagan era. Mr Wall's resignation was admittedly prompted by the very specific circumstances of the financial crisis at Lincoln Savings, where he has been accused of delaying closure because of pressure from senators who had received more than $1m of campaign contributions from Mr Charles Keating, the Arizona land developer who ran the thrift. Yet Mr Wall's resignation letter powerfully underlined the way in which the cost of the wider rescue for the thrifts has been consistently underestimated.

Back in August when plans for the biggest federal bail-out in the country's history were given the go-ahead, the bill was put at $166bn over 10 years. It now seems likely that the cost of under-regulation will exceed $200bn by a very wide margin. That, combined with the on-going drama of a Senate Ethics Committee investigation into the conduct of five Republican and Democrat senators, should encourage the Bush Administration to think again about the case for a more fundamental assault on the industry's problems.

Moral hazard

At the heart of those problems is perhaps the worst example of moral hazard in the world financial system. Deposits in the thrift industry are fully insured up to $100,000 and a thriving brokerage business is capable of packaging several $100,000 deposits together in such a way as to provide rich individuals with far more federal insurance than legislators originally envisaged. With depositors relieved of the need to exercise prudence and the path opened up by deregulation for gung-ho entrepreneurs to expand into high risk areas without adequate prudential supervision, financial scandal was inevitable.

The Financial Institutions Recovery, Reform and Enforcement Act (FIRREA), has taken some useful steps in the direction of sanity. Its tougher capital adequacy requirements do at least ensure that any thrift management that embarks on a speculative course will have to put more of its own money behind risky adventures. Qualitative controls on the asset side of the thrift balance sheet, notably in relation to high-risk junk bonds, have also been put in place. But this is a case of half-closing the stable door when several horses have yet to bolt. The tempting invitation to risk-taking entrepreneurs still exists because the legislators have failed to address the flaw in the deposit insurance system.

Vulnerable to fraud

Most countries in the developed world accept the case for providing some form of cushion for small depositors against financial collapse. Such depositors are often ill-equipped to make their own credit assessments and vulnerable to fraud. The problem with the American system is that it is absurdly generous to large, sophisticated investors who are capable of making credit assessments and bringing market discipline to bear on ill-run thrifts. As we have argued before, legislation is needed to restrict insurance to the depositor rather than the deposit, thereby killing off the brokerage that provides excessive insurance cover to all the wrong people.

The case for more and better prudential control remains as powerful as ever. One of the problems of banking supervision has always been that the task is thankless and the staff underpaid. What the escalating bill for the bail-out underlines is the foolishness of the run-down in the number and quality of regulators in the 1980s. The cost savings were minimal at the time in relation to the federal budget deficit and hugely negative in the light of subsequent events. And there is a wider cost in that the Federal Reserve's freedom of manoeuvre in monetary policy, already constrained by excessive financial leverage in US industry after the junk bond orgy, is increasingly restricted through the fear of financial collapse.

Few pigeons can have come more expensively home to roost than these ones of Ronald Reagan's.

David Buchan looks at issues on the agenda for the EC's Strasbourg summit

Why Britain is fighting alone




MITTERRAND: The Motor. Full steam ahead on Economic and Monetary Union (Emu) conference. Lined up majority of leaders for conference in autumn 1990. Open disagreement with Thatcher, but real bargaining with Kohl. Could finesse conference date to please Kohl. Backs Social Charter. Believes east European events require acceleration of EC integration.

DELORS: Broadly same position as Mitterrand. Chief author of three-stage Emu plan bearing his name. Wanted to push towards Emu ever since becoming Commission president five years ago; would regard Emu accord as crowning achievement. As socialist regards Social Charter as important, but essentially a side-show to Emu and its consequences for European political union.

KOHL: The Pivot. Beset by conflicting advice on timing of Emu conference from his ministers and central bankers, by caution in not wanting to rock electoral boat before late 1990 German election, and by desire not to let future EC integration foreclose ever-closer ties to East Germany. Logic makes him potential Thatcher ally on Emu delay; pro-EC ideology and personal dislike distance him from her.

THATCHER: The Brake. Flatly opposed on sovereignty grounds to later stage moves towards Emu, and on ideological grounds to the Social Charter. On the latter issue she knows she is alone, but on Emu still hoping for an alliance of self-interest with Kohl to delay Emu conference. Contests, and indeed reverses, the theory that EC integration should be speeded up in response to change in east Europe.

MRS Margaret Thatcher is encountering trouble from all quarters in her bid to delay, if not divert, moves towards economic and monetary union (Emu) in the European Community.

Time is running out for her to succeed, because at the Strasbourg summit starting on Friday President François Mitterrand will invite fellow Community leaders to join him in agreeing to start treaty-revising negotiations to create monetary union in the autumn of next year.

Just five days before the EC summit, President George Bush of the US has weighed in. Referring specifically to the Strasbourg meeting, the US President told his Nato allies on Monday that the changes in eastern Europe called for "a continued, and perhaps even intensified, effort of the Twelve to integrate."

Mr Bush may know little, and care less, about anything as unRepublican as the EC's Social Charter of basic workers' rights which Mr Mitterrand wants to give the Community at Strasbourg, or about the details of Emu, though it could make Europe the monetary equal of America. All he knows, and wants to convey, is that the Community should close ranks further to meet the challenge of a European continent in flux.

Mrs Thatcher is not about to be moved from her rooted opposition to monetary union in the Community simply because the leader of a third, albeit very influential, country thinks she should be. It is, besides, not the first time that Mr Bush has signalled that he will take her seriously only to the extent that she is taken seriously by her EC fellows. But the Bush message could sway Chancellor Helmut Kohl, who faces decisions in Strasbourg that are, from the viewpoint of German interests, very finely balanced.

On the face of it, the decisions facing the Strasbourg summit are relatively uncontroversial. Eastern Europe, for the moment, requires little further reaction from the Community than the economic aid its leaders agreed in Paris recently and the framework for step-by-step moves to possible German reunification endorsed at Nato this week. Much of the heat has gone out of the Social Charter argument as it has become clear that Mrs Thatcher is immovable in her lone opposition to it, and the other Eleven are unmoved by her objections. Even the Emu issue seemed, superficially, to be resolved at the Madrid summit in June, when all Twelve (including Mrs Thatcher) agreed that the Delors Stage One of closer economic and monetary co-operation should go ahead on July 1 next year, and that a later treaty-revising conference on implementing Stages Two and Three of the Delors plan (including a European central bank system) should only start after "full and adequate preparation."

President Bush's message could sway Chancellor Kohl, who faces very finely balanced decisions on German interests

The questions for Strasbourg are: Has preparation been full and adequate? If so, when should the Emu negotiators of the Twelve meet?

What's in a date, the bystander might ask in bemusement at the rising tide of argument on both sides. The answer is: a commitment to rewrite the monetary map of Europe, and probably a lot else as well. For, once the EC treaty is reopened for negotiation, there is a relentless momentum that leads to change.

The Single European Act negotiations showed how the juggernaut works. Mrs Thatcher, with two others on that occasion, voted against an inter-governmental conference, but attended the conference itself and signed the eventual act. With the Emu conference, all that is known is that Mrs Thatcher will vote against its calling but will attend its sitting; she said so last June in Madrid.

A dissenter like Mrs Thatcher has a legal veto on the final outcome of a treaty revision, which must get unanimous approval in contrast to the simple majority vote that can set treaty renegotiation in train. But such a veto may only be theoretical, because of the enormous pressures on a dissenter to conform to the rest.

Thus Mrs Thatcher's eventual acquiescence in a European central bank, possibly including binding rules on individual nations' budget deficits and new powers for the European Parliament, and involving what she herself has called the "biggest transfer of sovereignty we've ever had," cannot be ruled out. She knows that, and the knowledge only makes it worse for her.

Despite the size of the stakes, the tenor of the Strasbourg summit may be largely dependent on Mr Mitterrand's tactics. He has long had a simple majority – Belgium, Ireland and the Latin South – for his autumn 1990 conference start. Weeks of relentless travel around the Community by the 73-year-old French President have brought several of the remaining doubters round to his viewpoint.

The Danish parliament, as prickly a defender of its sovereignty as Westminster, has now given its Prime Minister, Mr Poul Schlüter, a mandate to vote the Mitterrand way this week. Mr Ruud Lubbers, the Netherlands' Prime Minister and Mrs Thatcher's closest Community ally over the years, looks like following the same line. Britain and France have been pulling little Luxembourg in opposite directions for its vote, though the duchy's Premier, Mr Jacques Santer, will probably take his guidance from Mr Kohl.

The German Chancellor has been offered varying advice by his colleagues. Mr Hans Dietrich Genscher, the Foreign Minister, is all for an early Emu conference; Mr Karl Otto Pöhl, the Bundesbank president, has been urging caution, as has Mr Theodore Waigel, the Finance Minister, who comes from Bavaria where there are elections next year.

All may depend on Mr Mitterrand. He can point to the fact that EC finance ministers have already approved Stage One mechanisms for closer economic and monetary policy co-ordination and that the Twelve (including the UK) have drawn up a list of questions for an inter-governmental conference to answer. He can argue that setting a date now is important to keep going the political impetus behind Emu. If, on top of this, he admits that the Community may not have fully and adequately prepared itself *now* for a conference, but that it will have done so by next autumn, before or after the German federal elections, then he should have Mr Kohl's vote. If, however, he presses his claim that full and adequate preparation exists now, then he may have an argument on his hands with Germany, and of course with Britain.

British ministers and officials cannot believe their ears when they are told that drafting a simple questionnaire is sufficient preparation for launching the Community into the Emu unknown. As Mr Nigel Lawson put it earlier this year, when he was still Mrs Thatcher's Chancellor of the Exchequer: "How can it be, little more than three years after the treaty amendment achieved by the Single European Act, with so much still to do to achieve the goal of the single market by 1992, that this great boulder (of Emu) should be so carelessly thrown into the pool?"

The answer is that the UK Government has been so preoccupied with first whether, and now when, to put sterling into the exchange rate mechanism of the European Monetary System (EMS) that it has simply not noticed how the monetary debate on the Continent has moved on beyond it. The reason is that many of Germany's partners in the EMS parity grid have grown restive. They are worried about the lop-sided way in which the system, conceived in 1978-79 and operated since outside the normal Community framework of shared control, bears exclusively on the weaker currencies. Thus it leaves Germany as the only country still running an autonomous monetary policy. The EMS's designers intended that some burden of adjustment should fall on a strong currency when it diverged from the rest. In practice it has always been the weak currency countries which have to do the intervening, borrowing and interest-rate raising when their currencies hit the limits of their exchange rate mechanism margins against the D-Mark.

It is not that the weaker currency Erm participants are ungrateful for the way "the German anchor" has pulled their inflation rates down, mostly below 5 per cent. Indeed the determination of a country like France to continue the anti-inflation struggle shows in its unwillingness to meet current Bundesbank calls for an EMS realignment. Nor does the argument, put particularly strongly by Italy in 1987-88, that the EMS had a chronic low-growth bias carry quite the same force with the Community growing by an average 3 per cent or more for the past couple of years.

The argument for moving beyond the EMS soon is essentially political – France, Italy and many smaller countries want to democratise the EMS and the only way they see of doing this is by transforming it into a single currency system with a federal bank on which their representatives sit alongside those of Germany. It has got to be done some day, they say – so why not start it now. And there are Germans, like Mr Genscher, who agree with them.

It was Mr Genscher's support that got the Delors committee under way at the June 1988 Hanover summit. The composition of that committee was a serious miscalculation from the viewpoint of those like Mrs Thatcher who wanted the governors of the central banks represented. Far from being the men to see pitfalls rather than possibilities, their habit of co-operation made them see Emu as feasible and inclined towards unanimity.

The insensitivity of the British Government to the French and Italian sentiment is pointed up by its paper outlining an alternative, evolutionary move towards Emu. This paper expressly lauds the "asymmetries" of the way the EMS works, bearing on the weak and making them adjust to the strong (the D-Mark). In one sense, the paper was a direct political pitch for German backing in delaying an Emu conference. It obviously has some appeal to Bonn, and even more to Frankfurt (home of the Bundesbank). But whether it is the basis for an alliance is doubtful.

True, this week it was the joint opposition of both German and British employer federations to the calling of an Emu conference next autumn that prevented Unice, the European employers' federation, from endorsing Mr Mitterrand's position when it saw him in Paris last night. But Bonn has a political need for change to be enshrined in a treaty, in a way that London does not. All German leaders, ranging from Mr Genscher to Mr Pöhl, agree on one thing: that they are not going to give up what they have got until they see, in cold treaty print, what they are going to get. The Bundesbank-run D-Mark is, after all, as much a part of German sovereignty as, say, nuclear weapons are to Britain and France.

It seems increasingly likely that an inter-governmental conference will convene before the end of next year in some palazzo in Italy, which will at that time hold the EC's presidency.

German leaders are not going to give up what they have got until they see in print what they are going to get

After the ceremonial and the set speeches, and when the working sessions shift to the more mundane setting of Brussels, some very thorny questions will have to be thrashed out.

Poorer countries will ask for more money to boost their lower productivity which could otherwise lead to jobs and investment flowing to richer and more competitive states in the union. All 12 member states will press for democratic control over a Euro-bank.

This raises the biggest conundrum of all. The very reason why the Bundesbank is the way it is and has had the success it has is that German politicians decided, in 1957, that their kind could no longer be trusted with the running of monetary policy. A European central bank will have to have the same independence, otherwise it will not get German approval. Where, then, does that leave democratic control?

French smash the record

■ Champagne corks were popping yesterday at the SNCF, the French railways board, after one of its famous TGV (Train à Grande Vitesse) express trains regained the world rail speed record from West Germany.

The record, 482.4 kmph (around 300 mph), compares with the mere 406.9 kmph achieved last year by West Germany's TGV equivalent, the ICE (Inter-City Experimental). SNCF was working on the last few decimal points last night, but it looks as if the figure comes out at a neat 50 per cent faster than the muzzle velocity of an escaping champagne cork, which is said to leave the bottle at 320 kmph.

However, the time you keep it up is everything. The record breaking locomotive, unromantically named TGV-Atlantique 325, kept up its top speed for 15 minutes around noon on a stretch of new line near the river Loire, between Vendôme and the Naveil viaduct.

Fitted with larger wheels than usual, it had fewer carriages. What pleased SNCF almost as much as the figure – in itself far above what French train spotters had been predicting – was that the track was not damaged by the enormous forces created by such weight at such speed. Some SNCF officials had feared that the conducting overhead wire might melt. That, rather than derailment, is the real technical problem. "This record proves that the SNCF can carry passengers in complete safety at 300 kmph," said Guy Rochard, a deputy director.

SNCF has worked in great secrecy since the West Germans ran away with the prize. The aim was to smash the record, not break it.

Sit tight

■ Here is a rare example of a securities analyst admitting to flying by the seat of the pants. A research report from Credit Suisse First Boston on DSM, the Dutch chemicals company, says: "It is tough to recommend a stock when earnings are declining, and it is even more difficult when earnings and dividends are below expectations. You can sell, but do so at your own risk. This is a damn good company."

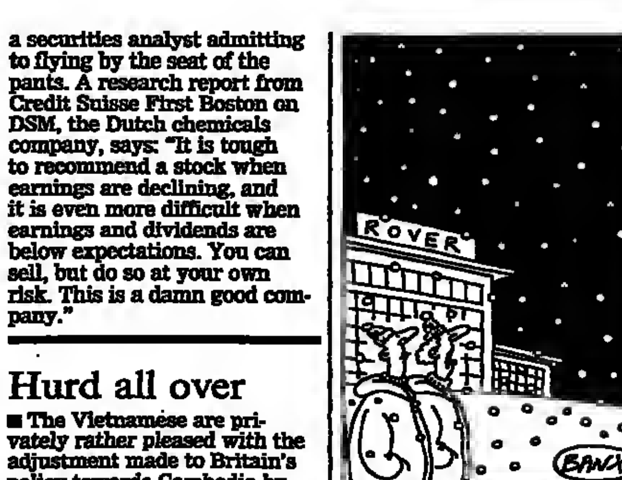
OBSERVER

Hurd all over

■ The Vietnamese are privately rather pleased with the adjustment made to Britain's policy towards Cambodia by Douglas Hurd, the Foreign Secretary. The bookshop round the corner from the Con Long Hotel in Ho Chi Minh City also seems to have got the message. Spotted last week, squeezed in between heavy theoretical works on Marxism-Leninism (in Russian), was one of the very few books in the shop in English. Battered, but complete, was The Smile on the Face of the Tiger, the novel written by Hurd in 1969 when Ho Chi Minh City was still Saigon and the Con Long was the Majestic. It is about the fate of Hong Kong and has also gone on sale again in the territory. In Vietnam, however, it is even cheaper: 2,000 dong (30p) against £1.10 in Hong Kong. On top of that, our man in Ho Chi Minh City was given a 30 per cent discount.

Going public

■ To challenge what is supposed to be one of the sacred principles of democracy: I wonder if it is right to attach so much importance to the secrecy of the ballot box. True, in a fledgling democracy or in a more feudal society, where no one is quite sure that rules



"It's not snow – it's sweeteners."

will be kept and indeed the future of the democracy itself may be in doubt, the secrecy may matter. But is it not the point of a mature democracy that no one should object to admitting in public for what or for whom they have voted?

I wonder, in particular, about the merits of Tory MPs voting for their leader in secret. They have been elected to parliament to do things in public. There would, one assumes, be a considerable outcry if they chose to vote secretly on other matters: for instance, on capital punishment, or indeed anything at all. And it seems reasonable for a member of the electorate to want to know whether his constituency MP supports Margaret Thatcher, Michael Heseltine, Sir Anthony Meyer or whomever.

As it is, quite a lot of MPs are not absolutely certain that the vote is secret anyhow, and some of them will go round telling different stories about how they did vote, just as there are many versions of who really voted for Thatcher in the first ballot in 1975.

There should be no stigma in saying that you voted for Meyer, but will support Thatcher now that she has won. That is what democracy is about.

Good show

■ Very ambitious exhibition to be mounted at next year's Edinburgh Festival: Cézanne & Poussin: The Classical Vision of Landscape. The two artists are more than two centuries apart, but the show – drawing from the world's major galleries, including The Hermitage Museum in Leningrad – will be designed to show some parallels between them as well as the differences.

The idea came from Michael Clarke, Keeper of the National Gallery in Scotland. He took it along to General Accident, the insurance company which has its headquarters in Perth and which has agreed to put up £100,000 in sponsorship.

The main man behind the company's interest in the arts is Alex Robertson. Now 58, he has spent 43 years with General Accident, 30 of them as a real insurance man. He then became the publicity manager. "Our first involvement was in the performing arts," he says. "We took the Scottish National Orchestra to the US. But we wanted to get into the visual arts as well."

General Accident now does only about 10 per cent of its UK business and 5 per cent of its worldwide business in Scotland, but is keen to stress its Scottish roots: hence Cézanne & Poussin in Edinburgh – Scottish as well as international.

Nice to know

■ A Farnham reader reports that a recent letter from her nine-year-old son on holiday in London includes this news: "Last night Uncle John and Aunt Mary and I stayed at the Savoy Hotel. It is very clean and comfortable."

Anatole Kaletsky argues that it is worth supporting perestroika

Helping Gorbachev through the winter

The lifting of the iron curtain has been the happiest event in post-war Europe and may be one of the watersheds in the whole history of mankind. But as the world celebrates the outward signs of liberation in eastern Europe, it is in danger of forgetting the deeper causes and consequences of the events in Budapest, Berlin and Prague.

Only a week before the Malta summit, Mr Richard Cheney, the US Defence Secretary, spoke publicly about the likelihood that Mikhail Gorbachev would be "driven out of power soon" in a reaction to the failure of his economic reform programme. Yet judging by the agenda at Malta, the future of Germany, Hungary and Poland seemed to be of far more interest to the US and its Western allies than the success or failure of Gorbachev's reforms in the Soviet Union.

It would be the ultimate historic irony if an outdated preoccupation with German unity and instability in central Europe should now distract attention from the infinitely more important issue of Gorbachev's attempts to reconstruct the Soviet Union and bring it closer to the liberal West.

If Gorbachev and perestroika fail, the turmoil in the Soviet Union will be a far greater threat to world prosperity and peace than any conceivable development in Germany or central Europe. And contrary to widely held belief, the lifting of the iron curtain will actually magnify the impact of events in Russia on Western Europe and the US.

In the event of famine or hyperinflation the Soviet people may well turn on Gorbachev and the Communist party, as Mr Cheney predicts. But the Soviet Union is not Hungary or Czechoslovakia. A populist upheaval from below might not produce the "rational" outcome which many Westerners seem to expect – a clearly anti-communist leader who would move faster than Gorbachev along the road to democracy and economic reform. A likelier successor to Gorbachev might be an authoritarian populist, appealing to the atavistic nationalism that has dominated Russian politics for 500 years from Ivan the Terrible to Stalin.

The Russian people have no experience of liberal democracy and little faith in market economics. Throughout their history, both under communism and the tsars, the Russians have seen the acquisition of personal wealth as prima facie evidence of violent oppression, robbery or corruption – and that remains a widespread attitude to market mechanisms today. It would not be at all surprising, therefore, if one of the first acts of a post-Gorbachev regime were the repression of co-operatives, private farmers and ethically suspect "speculators" and "exploiters."

The West has also forgotten about the last time a great European nation was defeated in war and experimented with democracy, only to plunge into economic chaos and ideological despair. It was a democratic election that gave the world Adolf Hitler. Today, however, a Russian chauvinist leader – whether another Stalin, Hitler or an Ayatollah-like Rasputin – would have the world's largest arsenal of nuclear weapons at his command.

Now look at the map of Europe. Outdated Bismarckian notions of strategy have convinced many that a Russian withdrawal from eastern Europe would make the world a safer place. But nuclear reality implies the opposite. If Russia becomes an illiberal outcast unwelcome at the feast of European integration, the loss of its buffer states will make Russia more dangerous and insecure, not less so. In the age of mutually assured nuclear destruction, shifting the frontline of East-West confrontation from Germany to the Soviet Union's own borders will actually exacerbate the threat not only to Western Europe but also to the US.

It might be possible to understand the world's myopic interest in Poland and Germany instead of Russia if Western leaders were powerless to influence events in the Soviet Union. But nothing could be further from the truth. Gorbachev's experiment with liberalism is not doomed to failure. Russia could well be saved from the barbaric isolationism which has been its historic lot.

If Gorbachev can feed, clothe and heat Russia through the winter the country will probably tolerate him for at least another year. If he can offer some extra cars and video recorders or even soap and blue jeans his reforms may be given enough time to start working. If he can stabilise the economy and control inflation, his reconstruction might actually have a chance of success.

Mr George Soros the Hungarian-American financier who has been as involved as anyone in the liberalisation of Eastern Europe has suggested that $25bn a year of Western aid would be required to stabilise the Soviet economy and avert hyper-inflation in the two years ahead. From that point on, the aid requirement would decline sharply as the rudimentary market mechanisms began to produce results.

The basis for these figures is simple. They are equivalent to the Soviet government's budget deficit plus the inflationary overhang of unspendable roubles in the public's hands converted into dollars at a realistic black market exchange rate. Economists can argue about the precise numbers but let us assume the order of magnitude is roughly right.

The first reaction of many Western readers will be to throw up their hands in horror. The Soros proposal is equivalent to the entire US foreign aid budget and more than double the annual disbursement of the World Bank.

But can we compare the importance of perestroika in Russia with the development priorities of other parts of the world? In part this is a matter of realpolitik. The economic and political disintegration of Brazil, India or even China would be tragic but they would not threaten the world with nuclear destruction.

The same calculation can also be seen in a more positive light. The cost of helping Russia must be set against the cost of defending the world against her; $25bn is a very modest figure when compared with the US defence budget of $300bn, to say nothing of the sums squandered on armaments by other countries.

But let us consider some purely financial comparisons. The US government will borrow at least $25bn in each of the next three years to pay off depositors in mismanaged savings and loan (S&L) institutions. By coincidence, $25bn was also the sum raised a year ago in Japan and on Wall Street, by Kohlberg Kravis Roberts, the leveraged buyout firm, to buy the food and tobacco conglomerate, RJR Nabisco.

Is $25bn of the Western world's savings better invested in thrifts, LBOs or perestroika?

Even from a financial standpoint the chance of full repayments from Russia are probably no worse than from junk bond issuers. As for money invested in the US government's S&L Refinancing Corporation, the Japanese insurance companies which buy Refco bonds strongly suspect that they will be repaid in a devalued, inflated currency, quite inappropriate to set against their yen liabilities.

Why then do they willingly finance the stabilisation of the US financial system and the Texas property market? Because the alternative would be a sharp rise in US interest rates, a recession and a world trade war.

Perhaps Gorbachev should now offer Japanese institutions the opportunity to avert an infinitely more dangerous conflict, by offering 30-year Soviet Refco bonds, denominated in non-convertible roubles.

He should certainly go to Wall Street to raise some zero-coupon and pay-in-kind money. Like any LBO sponsor, he would not need to worry about servicing these obligations until the second half of the next decade. If he was still unable to pay by then, Mr Gorbachev could simply renegotiate his country's debts and apply for a partnership at Drexel Burnham Lambert, or Kohlberg Kravis Roberts.

Lenin once said that capitalists would lend communists the money to buy the rope with which to hang capitalism. How fitting if a little economic rope provided by the West were now to put Marxism-Leninism on the gallows.

Composite rate tax

Time to reform a tax on the poor

By Michael Saunders

The poorest people in Britain are unnecessarily paying £450m in tax each year. This is the result of the composite rate scheme, under which tax is deducted at source on interest-bearing bank and building society deposits. Non income taxpayers are unable to reclaim this tax and, holding an estimated £18bn in these deposits, they earn about £2.2bn in pretax interest and pay around £450m in tax.

First, some background. The composite rate scheme has long applied to building societies, and in 1985 it was extended to bank accounts and other domestic interest bearing deposits. The level of composite rate tax is set slightly below the basic rate of income tax in order to yield the same total tax revenue as if basic rate taxpayers paid basic rate tax and non taxpayers paid no tax on their interest receipts: the £450m therefore does not go

The low National Savings interest rate is an implicit tax on those investors who have no alternative

the Government, but is a transfer from non income taxpayers to basic rate taxpayers.

Advocates of the composite rate scheme argue that it has two main advantages: it simplifies the tax system and reduces the costs of tax collection. Deducting composite rate tax at source means that basic rate taxpayers have no need to arrange to pay this tax themselves. This fits in with mechanisms under which tax is deducted at source on earned income (by PAYE), relieving most people of the need for a tax assessment. This, in turn, helps to reduce the costs of tax collection: the extension of the composite rate schema to banks enabled the Inland Revenue to make staff savings of around 1,000 people.

It is also argued that non taxpayers need not suffer: they have the option of investing in National Savings, on which interest is still paid gross, and can thus avoid paying composite rate tax.

However, it is clear that these arguments are contradictory. If the simplicity and efficiency of the composite rate scheme is advantageous then it should be extended to all interest bearing deposits, including National Savings. Survey evidence reveals that much of these gross interest National Savings products are held by taxpaying investors rather than non taxpayers. These taxpaying investors, if they are to pay the tax which is due, would need to fill out a tax return to do so. How many actually do? Does the Inland Revenue know? It is clear that the potential for tax evasion is considerable.

Moreover, it is simply not satisfactory to claim that National Savings provide all of the facilities offered by banks and building societies. For a start, one month's notice is required to withdraw money from the Investment Account, and three months notice for Income Bonds and Capital Bonds: the small investor may need instant access, and has it with a building society. National Savings accounts do not offer the other facilities, such as standing orders, that are available on bank deposits. In addition, the Government's Budget surplus means that it has no need to draw further money into National Savings and consequently the interest rates offered are highly uncompetitive. This low interest rate is an implicit tax on those investors who have no alternative investment that pays gross interest. As a result of these disadvantages, many non taxpayers end up saving in a bank or building society and paying composite rate tax.

The Inland Revenne's Survey of Personal Incomes suggests that in 1984-85 there were ebont 12m non taxpaying adults in Britain, many of whom were retired. This total is about to be swelled by the addition of around 3.5m non working epooses witb the introduction of independent taxation in 1990. Fully one third of the adult population will then be unnecessarily subject to composite rate tax if they save in a bank or building society. Is there an alternative?

Fortunately a well tried alternative is available. Investors who own shares receive dividends net of income tax at the basic rate, but non taxpayers are able to reclaim this tax. This should be adopted for bank and building society deposits. Basic rate taxpayers would then pay tax at the basic rate rather than the composite rate, while non taxpayers would be able to avoid paying tax on their interest. All that would be required would be for banks and building societies to send an annual statement to investors detailing the amount of tax deducted, and for non taxpayers to send this to the Inland Revenue.

15.5m adults will pay composite rate tax unnecessarily if they save in a bank or building society

If this required on extra 1,000 Inland Revenue staff, then it might increase the administrative costs of the collection by perhaps £20m (at £20,000 per person). It could be argued that this money would be better saved and used elsewhere. But wby should non taxpayers lose out in order to make life more convenient for the Inland Revenue?

The answer sbould be for the Inland Revenue to find more efficient ways of ensuring that non taxpayers can reclaim their tax. What we ask from our tax system is that it should be seen to raise money fairly, as well as efficiently. The composite rate scheme is efficient without being fair.

The author is UK economist at Midland Montagu.

LETTERS

Dithering

From Mr Michael Gayford.

Sir, Great things are happening in Europe. Eastern countries are likely to embrace democracy at undreamt-of speed. In the West, economic integration is on the agenda. But the UK – the saviour of Europe in 1940 – behaves like an old person unable to show enthusiasm for anything young, new and exciting.

Europe is not big compared with the USSR and the US, and yet there is resistance to monetary union. The US would never have been a world power without one currency, introduced by Alexander Hamilton, George Washington's Secretary of the Treasury (his father was Scottish, his mother of French Huguenot descent).

For decades the western alliance and Russia have spent their life blood on arms. Now there is a real prospect of change, but the UK Government's welcome is half-hearted. Loyalty to the Commonwealth was some excuse for coming late into the European Community; now we have none. Dither too long, and the financial centre of Europe will move from London to Frankfurt. We shall be an even poorer offshore island.

Michael Gayford,
Puddington Old Hall,
South Wirral, Cheshire

Brotherhood is equal

From Miss Janika Bömers.

Sir, Martin Wolf's article on the possibility that West Germany might become an eastward-turning colossus puts forward a fine reasoning against this (November 30). But, being German myself, I cannot help getting tired of media talk about German reunification or, worse, the addition of East to West Germany.

I keep wondering how people living in East Germany would like their country simply added to its powerful "brother." At the moment they have other problems – and we should all stop speculating about a unified Germany until the East Germans themselves are ready for it and talks may be conducted on an equal footing. Nor should we hurry them by attaching conditions to assistance or aid.

Janika Bömers,
61 Southfields,
Hendon, NW4

'A mildly successful prison economy'

From Mr Richard Lucas.

Sir, Nicolas Travers takes me to task for arguing that East Germany (GDR) does its citizens a great disservice by inflating the GDR's money supply by dumping its (soft Mark) currency abroad (Letters, December 1).

He claims that, in effect, clever East Germany ripped off the stupid Swiss, Lebanese and German bankers involved, by selling them soft Marks and then buying tbem back cheaper as the currency depreciates.

He further describes the opening of the Berlin Wall as a "gainful economic exercise" because it caused a slump in the value of the soft Mark and facilitated this process.

The two ideas Mr Travers puts forward do not stand up.

First, it is not credible that the East German Government could successfully outwit western bankers over time, causing them a net loss in their soft Mark dealings. For western banks to carry on buying soft-marks, they must have been offered substantial discounts to the existing street prices. As systematic net seller, the GDR Government was in no position to manipulate the market as Mr Travers suggests. No western bank would hold stocks of soft Marks above levels necessary to meet western tourist demand. Not even the GDR Government would spend its precious hard currency to buy back and destroy soft Marks, because the enormous monetary overhang in the GDR renders this exercise pointless.

Second, to claim that the opening of the Wall was a tactic in this strategy is to argue that whoever was in charge of tha operation knew that the Wall was coming down, and used the historic opportunity to conduct insider dealing over a number of years.

This is nonsense. Mass protest brought the Wall down. Economic pressure and physical force put the Wall up, and turned the GDR into a mildly successful prison economy through paying the inmates in non-convertible currency. The corruption trials now demanded will show that the leaders of that country cynically plundered their citizens through debasing the soft Mark. Tha market reality (which Mr Travers accuses me of ignoring) is that a bunch of crooks used soft Marks to buy hard currency which they then stole.

Wa should not give the former East German Government any credit for the policies which leave their citizens now holding worthless bits of paper for years of hard work, however much of a bargain this "deal" obviously represents.

Richard Lucas,
PA Cambridge Economic Consultants,
62-64 Hills Road,
Cambridge

In China the process has been temporarily stalled

From Mr C. Liu.

Sir, Day after day, newspaper headlines and television coverage have focused public attention on the courageous advances made possihle hy mass outcries in the countries of eastern Europe. Events in recent weeks in Poland, Hungary, East Germany and Czechoslovakia have moved at a pace that would have been thought unimaginable just a few months ago.

Having spent most of May in Peking, I am filled with both sadness and excitement. The scenes from eastern Europe today recall the exuberance of the masses of Chinese people marching in the streets of Peking in May.

That, too, was considered impossible before it happened, and it was the first such movement to break out.

The results, so far, are worlds apart. The Chinese people have paid and continue to pay dearly for their outburst.

It is not inconceivable to argue that the events of May and June in China, with a price paid in blood and heavy political repression, contributed not insignificantly to the tremendous advances being made in eastern Europe today. One can still vividly recall the candlelight vigils attended by thonsands of students and workers in various eastern European countries to mourn their Chinese comrades.

Even more significantly, those events signified the beginnings of their own movement to give expression to not dissimilar hopes and dreams.

The Chinese students called for dialogue, democracy and an end to special privileges for ossified Communist Party officials. Only four months later, the same calls, the same slogans and banners now fill the streets of eastern Europe.

During May and June the sacrifices of the Chinese students and their supporters captured the hearts and imagination of millions of people all over the world, especially, as recent events indicate, those millions in eastern Europe. It is therefore regrettahle that coverage of eastern European developments by the press has failed to hring the Chinesa dimension – with the heaviest cost paid so far – into the picture.

Appropriate linkages would not only remind people of the contributions and sacrifices made by those in Peking in June, but also show what is achievable to those in China who have initiated an irreversible process which has been temporarily stalled.

C. Liu,
New York City,
New York, USA

Other London sites cry out for demolition . . .

From Mr Richard Miles.

Sir, Mr Peter Palumbo, patron of the arts and chairman of the Arts Council, is the last person on earth who should be seeking to demolish eight listed buildings in the heart of the City. His doing so will only promote architectural philistinism – which needs no encouragement in the UK. (A short walk in any town will demonstrate this.)

Mr Palumbo would doubtless argue the merits of the building he proposes to replace them with. This ignores the fact that, quite independent of the quality of the new building, replacing good architecture involves not only losing something of quality, but also reduces the pressure on the many sites in London which cry out for demolition and redevelopment.

Mr Palumbo should refurbish the Poultry site, sell it, and spend the proceeds on buying and redeveloping the ogliest piece of 1960s planning he can find. This would satisfy his aesthetic sense as well as his business sense – a useful quality in a patron of the arts, if it is tampered with respect for what already exists.

Richard Miles,
15 Brandreth Road, SW17

FINANCIAL TIMES
Wednesday December 6 1989

OECD puts emphasis on development aid

By Peter Montagnon, World Trade Editor, in London

DEVELOPMENT aid must become a more central political concern in the 1990s if the world is to cope with global issues such as the environment, drugs and AIDS, leading industrial countries agreed yesterday.

This was one of the main conclusions of the annual high-level meeting of aid ministers and officials who constitute the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD).

"The developed and other economically advanced countries cannot live in isolated enclaves of prosperity in a world where other countries face growing mass poverty, economic and financial instability and environmental degradation," the committee said.

"Not only is this unacceptable on humanitarian grounds; the future well-being of developed countries is linked to economic progress, preservation of the environment and peace and stability in the developing world."

Collectively the 19 committee members provided $48bn in official development aid last year, a real increase of 8.2 per cent on 1987 and some 85 per cent of total world aid flows.

TOTAL OFFICIAL AID FLOWS ($bn)

Source	1985	1986	1987	1988
OECD DAC members	29.4	36.7	41.4	48.1
Non-DAC OECD countries	0.2	0.3	0.2	0.4
Arab donors	3.6	4.5	3.3	2.3
COMECON countries	3.3	4.3	5.0	4.7
Other LDC donors	0.4	0.7	0.5	0.4
Total	37.2	46.8	50.4	55.9

Source: OECD

However, despite its agreement on the importance of development policy in the 1990s, the meeting was reluctant to commit itself to a substantial increase in spending.

The committee's annual report, also published yesterday, says aid provided by its members is likely to increase at the relatively modest real rate of 2 per cent in coming years, less than the 3 per cent rate recorded in the 1980s. Last year's sharp increase was largely due to a bunching of payments to multilateral development institutions and is regarded as a blip in the overall trend.

This will leave its members far short of their UN commitment to spend 0.7 per cent of their Gross National Product on aid - the average has settled at around 0.35 per cent. But total aid flows should start to increase again after a period of decline caused by a sharp drop in Arab contributions.

The committee drew attention to the sharp growth in population expected in the developing world during the coming decade. *It will grow by* some 850m, an increase which will exceed the total existing population of the OECD area. Some 600m of these will be city dwellers, adding to urban problems and environmental strains.

Population growth poses an important challenge for development policy in the 1990s, the statement says, because it is linked to poverty and without alleviation of poverty there is little chance that environmental problems can be tackled.

"Growing tensions are likely to arise from the increasingly dualistic character of societies in many developing countries, with an expanding modernised and largely urban middle class on the one hand and the mass of slum-dwellers and rural poor on the other," according to the annual report.

The report urges developing countries and their populations to participate more actively in the development process. The aim should be broad-based growth coupled with concern for the poorest and most vulnerable segments of the population.

Aid policy should pay more attention to the development of human resources in developing countries, the report says. "Investments in education, health and other social services have tended to be looked upon as software, often classified as humanitarian concerns rather than productive investments. Investing in people is critical to development," it says.

A more active participation of women in the process of development at all levels is an essential element of sustainable development, it says, noting that women play a particularly important role in agricultural production in many developing countries.

The report says official development finance (which includes market-related lending such as loans from development banks as well as aid) now makes up some two-thirds of total financial flows to developing countries compared with one-third at the start of the decade.

Total flows rose by $5bn to $101.6bn in 1988. Export credits providing a positive contribution of $3bn compared with a negative $700m in 1987, although this was partly due to the consolidation of arrears. Foreign direct investment in developing countries totalled $19bn compared with $20.2bn in 1987 but was still running at sharply higher levels than those recorded earlier in the decade.

Presenting the report in London, Mr Joseph Wheeler, the former US aid official who chairs the committee, said fear among some developing countries that aid would be increasingly diverted to Eastern Europe was "a very real issue" under debate in each committee donor country.

In the short run, he said there was a risk of a modest diversion of funds from development aid budgets, but "all of us in the aid business are hoping for additional money." Most funds going to Eastern Europe would be non-concessional and therefore not classified as aid.

THE LEX COLUMN

The night of the blunt knives

The number of Tory MPs failing to support Mrs Thatcher is within the markets' expectations, but only just. The first reaction of sterling was to shrug the result off, but then, the market does not discount the same thing twice. The election had already weighed fairly heavily with the foreign exchange markets in the past week. This had been in sharp contrast to the behaviour of the equity market, perhaps because the esoteric nature of Tory procedure is better understood in London than outside the UK. Though the continued strength in equities remains faintly perplexing, there seems little reason for yesterday's result to affect it either way.

It is also worth considering the possibility that sterling is finding a level at or near DM 2.80. It can be argued that the UK's economic prospects for next year are no worse than the market expected some months ago; sterling's response has been unexpected in timing, but not in scale. The argument cannot be trusted for as long as the D-Mark remains the focus of speculative interest. But with yesterday's election resolved more or less to the *satisfaction* of the markets, Mr Major's first big gamble in not raising base rates may yet prove to have paid off.

IBM

IBM has made warning noises to Wall Street so many times this year that only the precise scale of its $2.3bn fourth quarter write-off or of its job-cutting programme came as a surprise yesterday. That IBM is taking reducing staff numbers is welcome; but there is a danger of developing the Eastman-Kodak syndrome, in which repeated restructurings merely antagonise the remaining workforce. Wall Street's instant response, that IBM should be getting rid of four times as many people again, looks correspondingly simple-minded.

It is also arguable how far IBM's earnings decline in the last few years stems from fundamental problems with the company, requiring radical surgery, and how it is a cyclical phenomenon. Results from other US computer manufacturers look almost as sick as IBM's at the moment; and if IBM successfully replaces the flagship system/370 mainframe in the early 1990s, its fortunes could improve substantially.

GEC

After the early welcome given to GEC's series of joint ventures, the market is now coming to terms with the resulting lack of visibility. Yesterday's interim figures serve as little more than a reminder that the first results to provide a true year-on-year comparison are not due until 1991. Meanwhile, the company's structure has become so complex as to be scarcely intelligible.

However, the figures suggest that Lord Weinstock came off best in his negotiations with General Electric, pocketing £335m in cash for a consumer business whose profits have since collapsed. Whether he struck such a good deal over Plessey is open to question. The Singer defence business in the US may already be loss-making, while GPT's sales to British Telecom are heavily down; though it could be argued that buying Plessey was the price of rationalising not only the UK defence business but GPT itself.

Overall, GEC retains many defensive strengths: a likely 20 per cent increase in the full year dividend is protected by a cash pile which – though not disclosed – must still be well over £500m. But at 220p – around 10.5 times this year's earnings – the shares properly discount the lack of visibility in the group's operations.

Trafalgar House

It is not immediately obvious why the sheikhs of Abu Dhabi should have seen enough of interest in Trafalgar House to lift their stake over 5 per cent. There are jewels in the crown, such as the QE2, or London's Ritz Hotel, for which somebody has just offered £150m and been turned down. Yet the outlook for the next year or 18 months is hardly exciting; and in spite of yesterday's news of an 18 per cent increase jump in pre-tax profits to £270m, one's nagging doubts about the conglomerate's internal logic are hard to dispel.

True, Trafalgar House has rebounded from the dismal days of 1985-6 and its ill-fated foray into oil and gas. And though housebuilding profits seem to have fallen 10 per cent to less than £70m, it would seem that the problem has already been discounted in the share price. It is striking, though, that none of Trafalgar's remaining three divisions has shown especially strong operating margin gains in the last few years; in construction and engineering, margins have been locked in at below 4 per cent since 1985-6 at least. On this basis, one wonders just what ownership by Trafalgar adds to, say, John Brown.

This is not necessarily an argument for a modish unbundling, not least because the old philosophy of using cash cows like contracting to fund property development is still a formula that can work. But even that theory starts to look a bit less convincing when interest capitalised has leapt up by a full £39m at the company in just 12 months.

Oils

The balance of supply and demand in the oil market is so complex that traders can get carried away by something readily understandable, such as the prospect of a cold snap. The Brent crude price is now $5 higher than a year ago, though it has seemed for some time that OPEC is over-producing. But a series of special factors – Britain's production problems in the North Sea and the Exxon disaster – have helped protect the market from the weak fundamentals.

Whether this can continue into 1990 must be open to doubt. The latest OPEC agreement raised the production ceiling to 22m barrels a day, which probably translates to 23m barrels a day after quota breaking. That is around 1.5m barrels a day above the consensus on demand levels. Any overspply may be partly corrected by a fall in Soviet oil exports, but with North Sea production likely to step up in 1990, the net positive effect of non-OPEC producers is hard to gauge. As the weather improves in the second quarter of next year, oil prices could edge downwards to $16-$17 per barrel. Such weakness may only be temporary, however. In the long term, the prospect is for excess capacity to be shaken out and for demand to continue on an upward trend.

Philippines crisis may damage economy

By Roger Matthews in Manila

THE BATTLE between rebel troops and army units loyal to President Corazon Aquino for control of Manila's main business district yesterday entered its fifth day, intensifying fears about the long-term damage which the crisis will inflict on the Philippines' fragile economy.

Intermittent shooting continued for much of the day in the Makati area as negotiations failed to produce the release of several hundred foreign tourists trapped in two luxury hotels occupied by the rebels.

At least 400 rebels, most of them members of the élite Scout Rangers, have seized about 20 high-rise appartment and office buildings. All roads to the area, which also houses a number of embassies, have been blocked by barricades.

The rebels, said to be well armed and equipped, earlier had virtual control of the streets and the government forces showed no inclination to dislodge them in what would be a difficult and costly operation. However, last night government forces claimed to have retaken five buildings from the rebels.

A weary government soldier tries to relax after fighting against rebel troops in Manila yesterday

Most of yesterday's shooting from the government side appeared to be at random, with armoured cars firing blind in occasional brief sorties up the wide avenues of Makati.

Government troops also fired 90mm recoilless rifles which are thought to have been responsible for a fire which started in the late afternoon.

The occupation of Makati is believed to have been a pre-planned operation, in case the scheme to topple the Government did not immediately succeed. Rebel leaders claim that their task had been virtually completed when the US air force intervened to rob them of their superiority.

They added that Mrs Aquino is now seen by everyone as the puppet of President George Bush. Lt-Col Rafael Galvez, one of the middle-ranking rebel commanders, said last night his men would continue fighting "for as long as is necessary," but added that government forces enjoyed vastly superior firepower.

A few onlookers had gathered around the barricades blocking the streets leading to Makati, but in nothing like the numbers which watched the defeat of the last attempted coup in August 1987. At least 50 people have been killed since early last Friday, the majority of them civilians caught in the crossfire.

Many foreign residents, diplomats and ambassadors who were driven from their homes by the shooting, have taken refuge in the city's hotels. At one, the ballroom is being used to house an anticipated 1,500 evacuees.

Much of the foreign business community in Manila is increasingly concerned at what some people suspect may be a determined attempt by the rebels to paralyse business life. A Japanese businessman who has lived in Manila for 18 months, said he thought investment plans would suffer.

All internal flights remain suspended in part because of the continued stand-off in Cebu, where rebels still hold the main air base. Negotiations yesterday appear to have made little progress. This underlines the suspicion that unlike the previous five coup attempts, this time the leaders aim to weaken Mrs Aquino further, even though they have failed again to remove her.

Compromise plan for EFA radar contract

By David White, Defence Correspondent, in London

A possible compromise has emerged in the two-year-old dispute between London and Bonn over the choice of a radar for the £22bn ($34.3bn) European Fighter Aircraft. If successful, the plan would ensure a leading share of the work for Ferranti International Signal, the troubled UK electronics group.

Ferranti, which heads one of the contending consortia for the radar contract, worth at least £1bn, said yesterday it had been discussing the compromise with Telefunken System Technik (TST), the Daimler-Benz subsidiary which is heading the rival group.

A senior UK Ministry of Defence (MoD) official last night described the proposal as "a sensible idea."

The compromise, which would involve incorporating processing technology from the West German-led radar into Ferranti's ECR90 proposal, could be linked to Daimler-Benz's taking part in a rescue operation for Ferranti.

The West German cars-to-defence group is one of several companies believed to be interested in Ferranti.

However, GEC-Marconi, which is part of the current TST consortium in the radar contest, said it and its German partner were keeping to their agreement to bid together for the contract.

The TST-led group is proposing a radar known as MSD-2000, developed from the US Hughes APG-65 already in service. Fiar of Italy and Inisel of Spain would collaborate in producing whichever system was chosen.

Mr David Fletcher, deputy managing director of GEC-Marconi, said there was "no question whatsoever" of striking a deal with Ferranti on the basis being suggested, with TST switching camps to become "prime" contractor for the ECR90. But he said that if the MSD-2000 were chosen "we would be delighted to put some work with Ferranti."

He said the dispute was coming "very near a disaster" because of delays being caused to the rest of the EFA programme by the failure to choose a radar. The British MoD is hoping for a decision by the end of January.

In an effort to break the deadlock, British officials asked the Germans in August for proposals to upgrade the MSD-2000 to the exacting specifications of tha Royal Air Force.

The plan discussed by Ferranti and TST aims to overcome West German objections that components of the ECR90 system may not comply with standards set for the overall aircraft project. It would mean using a Motorola 32-bit processor in the place of a chip supplied by Ericsson of Sweden for the ECR90 proposal.

The compromise would be similar to the solution reached by France for the radar to equip its planned Rafale fighter, by pooling the efforts of its two major companies in the field, Thomson-CSF and Electronique Serge Dassault.

A decision has to be reached by NEFMA, the management agency *representing the four* governments involved in EFA, which requires a unanimous verdict.

Lighthearted revolution sours

Continued from Page 1

significant slice of that income was diverted into state security service (*Stasi*) slush funds to cover private informers, bribery, and other things that could not be paid out of normal budgets.

"This is what angers people. To think that the objects in our museums have been sold to the west, that our country has been turned into a rubbish dump for the West, to earn hard currency not for the economy but for the *Stasis*," said one official of the young Social Democratic party.

The key *figure* in the story is Mr Alexander Schalck-Golodkowski, the Communist Party's international trade chief and who is now thought to be hiding in Switzerland or, curiously, Israel. The Berliner Zeitung, which is inventing East German investigative journalism, and is to the current scandal what the Washington Post was to Watergate, has been asking angrily why Mr Golodkowski was allowed to escape.

The paper says it presented firm evidence of wrongdoing to the authorities on November 20, but Mr Golodkowski was still allowed to travel to West Germany after this date. It raises the qnestion of how many more ministers and institutions he could have incriminated. Mr Hans Modrow, the Prime Minister, has admitted partial responsibility for the escape.

Yesterday Switzerland rejected as inadequately documented an official East German request for help in locating the fugitive.

"I wouldn't be surprised if the country was involved in the international drugs trade," said one disgruntled East Berliner yesterday.

Tbe prosecntor's office, *hardly one of the most glorious* institutions of the old East German state, was last night telling ordinary citizens they should denounce corruption wherever they found it.

But they needed no encouragement. There were fresh reports yesterday of citizens – and even policemen – milling around local offices of the *Stasi* insisting that incriminating docnments should not be destroyed.

About 2,000 tried to force their way into *Stasi* building in the town of Suhl - but the local polica chief told tham the papers thay wanted had already been shredded. In Rostock, hundreds of people kept watch outside the *Stasi* office to ensure documents did not go missing.

Bush rings Thatcher over EC integration

Continued from Page 1

Social Charter and vehemently opposed to fortber moves towards monetary union.

She disclosed details of the telephone call as she came under attack in Parliament from the Opposition for being incapable of keeping up with events. Mr Neil Kinnock, the Labour Party leader, said that Mrs Tbatcher was being "increasingly pushed towards the margins" both in Nato and the EC.

Mrs Thatcher rejected the claim, suggesting that the British Government was "up to date" and responsible for many of the changes which had been implemented within the EC.

Mrs Thatcher's office said yesterday that Mr Bush, who had been alerted by the US Embassy in London to reports in the British press of his remarks, telephoned the British leader to say that his remarks had been misinterpreted and that they had been entirely consistent with previous US statements.

British officials said that his remarks to Nato were directed at the completion of the EC single market in 1992 and that both leaders wanted to see an open and liberal market economy within Europe.

Even so, Mr Bush's remarks are being seen as a call for integration on a mnch broader scale which goes well beyond the issue of the single market. In particular, the President wants Britain to take a more positive view on the issue so that it can exercise more influence over moves towards closer integration.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	16	61	Dubrovnik	S	10	50	Malta	F	19	66	Rhodes	S	15	59
Algiers	C	17	63	Edinburgh	C	4	39	Manchester	C	7	45	Rio de J'o	-	-	-
Amsterdam	S	7	45	Faro	C	17	63	Manila	C	30	86	Rome	R	10	50
Athens	S	14	10	Florence	F	6	43	Melbourne	-	-	-	Salzburg	S	-2	28
Bahrain	-	-	-	Frankfurt	C	3	37	Mexico City	C	12	53	San Francisco	S	8	46
Bangkok	-	-	-	Funchal	R	16	61	Miami	F	12	54	Seoul	S	7	45
Barcelona	S	14	57	Geneva	C	1	34	Milan	S	7	45	Singapore	C	28	82
Beirut	-	-	-	Gibraltar	C	17	63	Montreal	S	-19	-2	Stockholm	S	-1	30
Belfast	C	7	45	Glasgow	Fg	1	34	Moscow	Sn	-7	19	Strasbourg	Fg	-4	25
Belgrade	Fg	-5	23	Guernsey	F	9	48	Munich	Fg	-5	23	Sydney	R	17	63
Berlin	C	3	37	Helsinki	S	-6	21	Nairobi	F	24	75	Taipei	Cl	25	77
Biarritz	S	9	48	H. Kong	S	22	72	Naples	R	12	54	Tangier	F	20	68
Bombay	S	31	8	Innsbruck	-	-	-	Nassau	S	24	75	Tel Aviv	F	14	57
Bordeaux	-	-	-	Inverness	Fg	4	39	New Delhi	S	20	68	Tenerife	C	19	66
Brussels	C	4	39	Islamabad	Cl	20	68	New York	S	-4	25	Tokyo	F	16	61
Budapest	Fg	-4	25	Istanbul	S	10	50	Nice	R	8	46	Toronto	Sn	-6	21
B. Aires	Cl	25	77	Jakarta	-	-	-	Nicosia	S	15	59	Tunis	F	17	63
Cairo	C	17	63	Jersey	S	7	45	Oporto	C	13	55	Valencia	R	12	54
Cape Town	C	19	66	Jo'burg	F	23	73	Oslo	F	-2	28	Venice	S	7	45
Caracas	C	26	79	Lima	-	-	-	Paris	C	-1	30	Vienna	C	2	36
Casablanca	F	18	64	Lisbon	F	17	63	Peking	S	10	50	Warsaw	C	0	32
Chicago	C	2	36	London	F	10	50	Prague	C	1	34	Washington	C	1	34
Cologne	Fg	2	36	Los Angeles	S	11	52	Reykjavik	R	7	45	Zurich	C	-3	27
Copenhagen	C	4	39	Luxembourg	C	4	39								
Corfu	C	13	55	Madrid	R	9	48								
Dallas	S	7	45	Majorca	F	16	61								
Dublin	S	9	48	Malaga	R	16	61								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain
S-Sun Sl-Sleet Sn-Snow T-Thunder

EC accord on aviation

Continued from Page 1

and technical standards, and operate economically.

This issne has been highlighted recently by the Paris Government's refusal to allow its overseas airline UTA access to European routes currently serviced by Air France.

UTA has been lobbying Brussels to intervene on its behalf – but while Sir Leon Brittan, the Competition Commissioner, would not be drawn yesterday on the Commission's next move, many believe that his colleagues will be reluctant to proceed against the French Government after the council's clear political commitment to implement the new principle come 1 July 1992.

Yesterday's developments are the more surprising given the notable absence of progress on air transport deregulation – and Mr Delebarre's seeming lack of enthusiasm – earlier in the year.

Both Greece and Portugal have reservations about the deadlines for implementation but the commitment of all 12 to the principles of a freer market are unambiguous.

FINANCIAL TIMES
COMPANIES & MARKETS
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Wednesday December 6 1989

INSIDE

Atchoo...and now for the profits from GEC

Lord Weinstock has a heavy cold. But the sniffles failed to dampen the GEC chairman's jocular mood yesterday as he announced a 14 per cent increase in the UK electronics group's interim profits. Teasing fellow directors for question evasion, he said events at Ferranti International Signal were being viewed with interest. He admitted that GEC had contacted Ferranti but had not spoken to Thomson-CSF, the French defence group which has expressed an interest in its troubled UK couterpart. Michael Skapinker reports. Page 30

Squid pro quo

Not since the days of Captain Nemo has squid caused so much trouble. Trawlermen off the Falkland Islands have been scooping up the little cephalopods by the boatload, making big profits for themselves and the local government which sells licences to fish. The lucrative trade, however, has become a thorny political problem between Britain and Argentina, which lays claim to the fishing grounds. And there is also the problem of long-term conservation of squid stocks – trawlers pulling in as much as 70 tonnes of the tasty seabed dwellers in just one hour. Page 36

The bumpy road to Rio

What a year. Not many Brazilian investors will forget 1989. Like a rollercoaster climbing towards the big drop, there was an almost fourfold rise in share prices during the first five months. Then down equities screamed when Naji Robert Nahas, Brazil's leading speculator, defaulted in June. Now share prices have lost all the weight they managed to gain during the months following the Nahas affair – uncertainty this time being caused by the final stages of the country's first free presidential elections in 29 years adding to the usual unease over the state of the economy. Page 48

Fighting talk from Daiwa

It is easy to upset Masahiro Dozen (left). He visually bristles at unfavourable comparison between Daiwa, the second biggest Japanese securities house, and Nomura, the market leader. The newly-appointed president of Daiwa is sure that greater flexibility is the key to beating the slick Nomura machine to business in increasingly diversified markets. And there is a fighter side to his nature. For, as Stefan Wagstyl reports, he had enough humour to label Daiwa's October selection of 12 recommended stocks, Dozen's dozen. Page 28

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
AEG	283	+	17	BP France	150.5	+	7.9
Volkswagen	499.9	+	11.9	CFF	1400	+	88.2
Falls				GTM Entrep	1239	+	88.6
Beiersdorf	695	−	21	Geophysiq	899	+	40.7
Deckel (R)	235	−	10	Raffinage	170	+	9.5
Hamburg Elekt	168	−	6.8	**Falls**			
Mannesmann	321	−	7.5	Ceras	416	−	17.3

NEW YORK ($)				TOKYO (Yen)			
Rises				**Rises**			
Alum Co America	75⅝	+	1⅞	Hodogaya Chem	1060	+	101
Compaq Corp	90⅝	+	1⅛	Kagotsusaisakusho	3990	+	390
IBM	100½	+	1¼	Kyosan Cable	1270	+	200
McCaw Cell	40½	+	1¼	Shimura Kako	1530	+	200
UAL	161⅞	+	2⅛	Tokyo Sangyo	900	+	90
Falls				**Falls**			
Intl Banknote	4⅛	−	⅞	Teikoku Piston	1450	−	220

New York prices at 12.30

LONDON (Pence)							
Rises				Land Secs	548	+	20
BICC	474	+	14	MEPC	548	+	19
BPB	231	+	8	RMC	664	+	18
Bass	1064	+	16	Redland	558	+	18
Blue Circle	230	+	10	Reuters	1001	+	37
Brit Aero	517	+	18	Rothmans	498	+	25
Century Oil	150	+	12	Shell	467	+	9½
Crosby (J)	94	+	16	Wates City	182	+	9
Fisons	364	+	12	**Falls**			
GKN	409	+	6	Allied Colloids	160	−	13
Harrisons	632	+	19	Alphameric	34	−	12
Kwik Save	376	+	14	Body Shop	514	−	24
LASMO	572	+	16				
Laing Prop	502	+	14				

Usinor buys CMB's tinplate unit

By George Graham in Paris

USINOR Sacilor, the French state-owned steelmaker, is to buy the tinplate manufacturing subsidiary of the Franco-British CMB Packaging for FFr1.5bn ($246.7m), creating the largest European tinplate producer.

The tinplate unit is CMB Acier, better known as Carnaud Basse-Indre. It was already buying about 80 per cent of its supplies of hot coil, for cold rolling and electrolytic coating with tin or chrome, from Usinor's sheet steel subsidiary, Sollac.

Its output of 360,000 tonnes a year will take Sollac to about 1m tonnes a year of tinplate and chrome plate, placing it first in Europe and on a level with Nippon Steel of Japan worldwide.

The deal will complete the recentring of each group on its own specialities. Carnaud, the French packaging company which merged in April with Metalbox Packaging of the UK to form CMB, bought Usinor's downstream tin can operations in 1987, and is now selling to the steelmaker its own upstream activities.

"It is better to avoid getting mixed up in your client's business. This way, we each stick to the areas where we are the specialists," commented a Usinor official last night.

Usinor, chaired by Mr Francis Mer, has undertaken a steady reorganisation of its businesses, in the process returning to profit last year for the first time in 14 years. This year it is forecasting profits of about FFr8bn.

Mr Mer has gradually redrawn the group's boundaries, handing over control of its problem concrete reinforcing bar operations to the Italian specialist Riva, pooling its sheet-piling business with Arbed of Luxembourg and its merchant bar activities with Cockerill Sambre of Belgium and taking over Cockerill's electrical sheet sales.

Usinor also announced yesterday that it would take a 20 per cent stake in Cockerill's reinforcing wire subsidiary, Tréfileries de Fontaine l'Evêque, possibly rising later to 49 per cent.

Last summer, he undertook a more ambitious move with the acquisition of Saarstahl, the troubled West German steelmaker which had been bailed out by the Saar regional government.

For the Wendel family, once France's leading ironmasters, yesterday's deal, expected to be completed by March next year, represents one more step away from the steel industry that made its name.

As part of the Usinor purchase of Saarstahl earlier this year, one Wendel family holding company, Marine-Wendel, agreed to sell its remaining stake in the West German steelworks Dillinger Hüttenwerke; now another Wendel holding company, CGIP, will lose its interest in Basse-Indre, held through its 25.5 per cent stake in CMB Packaging.

Usinor said yesterday that it would continue to work closely with CMB, the largest European packaging group and third in the world behind American National Can of the US and Toyoseikan of Japan, on research into and promotion of the use of steel in packaging.

Former Nixdorf director to head Porsche

By Andrew Fisher in Frankfurt

MR ARNO BOHN, 42, former marketing director of the ailing Nixdorf computer company, will become the next chief executiva of Porsche, the West German luxury sports car manufacturer.

In March next year, he will succeed Mr Heinz Branitzki, 61, who moved up to the top management position in Porsche two years ago, after its US sales slumped as a result of the October, 1987, Wall Street collapse and the weakness of the dollar.

A Porsche driver himself, Mr Bohn has spent his career in the computer industry.

He resigned from Nixdorf's board in last April, admitting that important sales goals had not been met.

Mr Klaus Luft stepped down as the heavily loss-making Nixdorf's chief executive last month.

By coincidence, he is also on the supervisory board of Porsche – it is this upper board which appoints the car company's top management – but Mr Bohn said he would soon relinquish this post.

Porsche has recently experienced a considerable pick-up in its sales, having upgraded its model range to regain its image of exclusivity.

The company has said its earnings trend improved in the financial year ended July, 1989, after net profits had halved in 1987-88 to DM25m ($14m).

Turnover in 1988-89 was DM2.53bn, an improvement of 2 per cent; profits will be announced early next year.

Mr Bohn will join the Porsche management board on January 1.

Porsche, controlled by the Porsche and Piëch families, has been the subject of vague takeover talk for the past two years.

But Mr Bohn said yesterday that the family shareholders stood firmly behind the company. "Its equity capital situation is very good, it has no debt, and it has big cash reserves."

One reason for Mr Bohn's departure from Nixdorf was a disagreement with Mr Luft over whether the computer company should enter into financial partnerships with stronger companies.

Mr Bohn favoured the taking of a minority stake by an outside partner, whereas Mr Luft was firmly against giving up any of Nixdorf's independence, despite its mounting losses.

Ashley Ashwood

Liquid stock: Michael Howard, environment minister, announcing the water share price

Keeping water flowing out from its source

Deborah Hargreaves on the Government's efforts to stop water shares sold abroad returning to the UK

NON-UK investors will be offered a good chunk of the UK water companies today and the indications are that they will be enthusiastic buyers. But many could sell quickly, raising the question of whether their participation in UK privatisations is as important as the UK Government says it is.

The Government sees participation by international investors as important to ensure the success of the water flotation, providing insurance against a low take-up at home. However, it retains the option of clawing back shares from the US, Europe, Canada and Japan if – as now seems probable – the issue is over-subscribed domestically.

Overseas investors have been keen initial buyers of past privatisation issues, but many of these shares have rapidly been returned to the UK – a process called flowback. If this happened in the water issue, it might raise criticism of the Government's £12m ($19m) payment for international syndication.

The degree of flowback is hard to quantify. However, British Gas has tried to follow its shares closely after the flotation. It is almost three years since British Gas was privatised. Some 2.5 per cent of its shares are held in North America as American depositary receipts, from an initial allocation of 6.5 per cent.

The water issue is particularly complex because 10 companies are being sold overseas in packages of 1,000 shares.

The share packages placed overseas can be broken up after the flotation. Many water analysts believe the bundles could start trading at a discount to the net asset value of the individual companies, encouraging investors to break up their packages.

The Government will try to persuade foreign investors not to unbundle their shares by providing a facility for trading in packages on SEAQ, the Stock Exchange automated quotations service, at least until July 1991, when the final instalments are due to be paid on the shares. Also, many brokerage houses marketing water shares abroad are charging only one commission to deal in the packages.

UK privatisation issues have developed a reputation for profit overseas, and most of them have seen healthy demand from investors abroad. The Government usually does not sell more than 20 per cent of any privatisation into the foreign market, although 33 per cent of British Steel was sold overseas.

Some 18.5 per cent of the water shares have been allocated to the international market, with 52.6 per cent going to Japan. The rest are split between Europe – 26.2 per cent; Canada – 11.9 per cent; and the US – 9.7 per cent.

The Government has reserved the right to take back a certain number of shares from institutional and foreign investors if deluged with retail demand from the UK. However, if this happens, international institutions could end up with a more favourable hand than those in the UK, since their complete packages of 10 companies will be returned while UK investors will have to surrender their holdings in each of the most popular companies.

The largest water companies are expected to be most popular with both UK and overseas institutions – and these will work hardest to retain foreign investors. Shares in smaller companies with fewer plans for diversification could be swiftly returned.

AN aggregate yield of 8.55 per cent for the 10 water companies is attractive by international standards, particularly as the stock issue is on a partially-paid basis which could mean an initial yield closer to 20 per cent.

For Japanese investors, water beats the traditionally low yields of equities on the Tokyo Stock Exchange – and even the 5.5 per cent gain on Japanese government bonds. However, investors face possible currency movements against them.

The Government's efforts to make water attractive are paying off internationally, with many institutional investors looking at the cash injection and debt write-off in the industry as a direct subsidy of the issue. With sterling weak, water shares look even more reasonable to US and European investors.

To encourage foreign investors to hold UK shares, enough of them must be sold abroad to make a local market in them, says Mr Howard Hyman, director of privatisation services at Price Waterhouse, the accountancy firm.

IN Japan, many institutions are expected to send their allocations of water shares back to their London branches, which will be better able to differentiate between the water companies and unbundle the share packages.

The flotation will be made as a public offering in Japan without a listing, as part of a change in Ministry of Finance regulations initiated for the water issue. The lack of a listing on the Tokyo exchange has made the water issue easier and cheaper to place in Japan, according to Daiwa Securities, lead underwriter.

Overseas investors have gleaned little of the controversy that has surrounded water privatisation in the UK this year. To the international investor, particularly in Japan, the issue is being marketed as a straightforward high yield stock.

Mr Jack Barbanel, who heads First Global Asset Management in Princeton, New Jersey, is keen to buy UK water shares, even though he cut his exposure to UK equities since Chancellor Nigel Lawson's resignation over six weeks ago. "The benefits of privatisations are very strong to initial investors," he says.

Public ownership of the water industry is well developed in the US and investment demand is strong from institutions, which realise how cheap UK water shares are compared with those in their own utilities.

In France, where the offer is being made to some 300 institutions as a private placement, the offer is going well, partly because investors there expect their water companies to buy into the UK once the shares go on sale in the secondary market.

Offer in UK likely to be over-subscribed

By Clare Pearson in London

THE offer for sale of shares in the 10 water companies of England and Wales looked likely to be over-subscribed yesterday amid a last-minute rush to meet this morning's deadline for applications.

The latest available Government figures showed applications for about half the £1.2bn ($1.9bn) retail offer had been received by Monday lunchtime. This was being taken as an enthusiastic response in the light of experience of previous big privatisation issues.

In the past, most applications have been delivered in the final day or so before the close of the offer. This is also when cheques for the biggest amounts are usually handed in.

At the same stage in the offer for British Gas in 1986, applications had come in for just a third of the shares. This offer was eventually four times subscribed.

The strong response comes despite Government concerns that the £5.24bn flotation, one of the biggest in its privatisation programme, would prove unpopular with the UK public.

About 400,000 applications had arrived by midday on Monday. These were for an average of about £582 worth of shares, at the partly-paid price of 100p, representing a fully-paid value of £1,400.

Receiving centres around the country will be open early this morning to take last-minute hand deliveries.

The Government's advisers are now hoping that at least a million applications will be made. This would be more than enough to trigger the clawback arrangements which make shares available to the public at the expense of institutional investors.

If these arrangements were fully put in place, the proportion of the total offer available to the public would rise from about 23 to about 46 per cent.

The basis on which shares will be allocated to the public will be settled at the weekend, when all the applications have been analysed by J. Henry Schroder Wagg, the Government's financial adviser on the offer. But it seems unlikely that any applications will be balloted out.

Renault and Volvo scale down merger proposals

By William Dawkins in Paris

RENAULT and Volvo, the French and Swedish car and truck makers, have scaled down far reaching talks on a possible merger of their automotive operations, in favour of a more limited alliance.

"Negotiations are slowing down, but that does not mean they will not produce a solution," Mr Roger Fauroux, the French Industry Minister, said yesterday.

The original plan would have created the world's largest truck maker, with Volvo taking responsibility for both companies industrial vehicle activities, and Renault handling car production. Their discussions were made public less than two months ago.

They are now looking instead at possible technical and marketing alliances, said officials in Paris. The partners might also take minority stakes in each others' equity. "The aim is to look at other more practical routes to an accord," they said.

Renault refused to comment on why this change of strategy came about or which side was the most cautious.

However, it is understood that Mr Pehr Gyllenhammar, Volvo's chairman has come under public criticism in Sweden for considering allowing a foreign group to take such a powerful position in this symbol of Swedish industrial power.

Volvo has long been seeking a big partner to help it face growing world competition. Earlier, it tried unsuccessfully to stage a merger with Saab-Scania, the rival Swedish car and aircraft group.

Renault appears to be content to proceed at a gentler pace, partly on the grounds that a deal as ambitious as the one originally envisaged needs very careful preparation.

A merger on such a scale would have put pressure on Renault to change its status as a state-owned and protected Regie, a move which risks creating serious political problems for the Paris government.

The French car group already has, by contrast, recent experience of more limited alliances that required no such change, like the joint ventures announced this year with Chrysler of the US to make four-wheel drive vehicles, and with DAF of the Netherlands to make vans.

The French Government is, meanwhile, fighting pressure from the European Commission to do more to reduce Renault's capacity, as the condition for receiving a FFr12bn ($1.97bn) government debt write-off, a requirement denounced as unfair by Mr Fauroux yesterday.

INTERNATIONAL COMPANIES AND FINANCE

Bank merger inside deals ruled out

By Stefan Wagstyl in Tokyo

THE TOKYO Stock Exchange has found no evidence of insider dealing behind a sudden surge in share prices ahead of the announcement in August of the planned mega-merger between Mitsui Bank and Taiyo Kobe Bank.

The stock exchange yesterday said the investigation was complete and the results had been sent to the Ministry of Finance, which would decide what to do next. The stock exchange said it had done its best in investigating the allegations.

The failure to find evidence could expose the Japanese authorities to renewed foreign criticism of trading practices in the Tokyo market.

Foreign pressure was largely responsible for pushing Japan towards passing a new law in April that outlawed insider dealing. It specified that company employees and others who might know in advance of corporate moves including mergers would be guilty of insider trading if they took advantage of their information to trade.

The shares of both Taiyo Kobe and Mitsui rose sharply in the last trading day before the merger was announced. The stock exchange started an investigation immediately after the merger was made public.

Brokers told investigators that many orders for Taiyo Kobe shares were handled by Shinei Ishino Securities, affiliated to the bank. Ishino has said these orders were stimulated by a routine recommendation of Taiyo Kobe stock.

A senior Ministry of Finance official said insider trading was not well understood in Japan. Even though the law was in place it would take time before it would be effective.

His comment is borne out by the fact that newspapers frequently referred to the Recruit scandal as an affair involving insider dealing – even though it actually concerned the sale of shares on favourable terms of an unquoted company. No insider dealing – indeed no stock market dealing of any kind – was involved.

Several other stock exchange investigations into suspicious price movements, carried out after the new law was passed, have also produced no evidence of insider dealing.

British Land suspension stirs speculation

By Paul Cheeseright, Property Correspondent

BRITISH LAND, the fifth largest UK property group, will unveil today a scheme which it says "will maximise shareholder value" and may involve some capital restructuring.

Dealings in British Land shares were suspended yesterday morning after they had risen 14p to 359p, pending an announcement of proposals which "do not involve an offer for the company."

Speculation in the City quickly centred on the possibility that British Land would be selling Plantation House, its most famous and obviously tradable asset, probably for about £350m.

Plantation House and adjacent buildings owned by British Land provide more than 500,000 sq ft of office space in the City of London. There has been chatter for some years that Mr John Ritblat, the British Land chairman, would sell the property to a foreign buyer.

But the Stock Exchange is reluctant to suspend share dealings and such suspensions are now rare. It seems unlikely that trading in British Land shares would have been stopped for a single property sale, even though that property represents a hefty chunk of British Land's £1.45bn portfolio. If this is the case, British Land's proposals "to maximise shareholder value" probably involve either the sale of Plantation House or other properties as part of a wider scheme or a restructuring of the group's capital.

In either event the underlying motive would probably be to raise the value of British Land issued securities to a level around that of the group's net asset value.

British Land's last published net asset value was 531p a share and it is reasonable to assume that this figure would rise during its financial year, to next March, to between 580p and 590p. Recently, though, British Land shares have been trading, in common with those of other large property investment groups, at a discount of 40 per cent to their net asset value.

One way of increasing British Land's value to its shareholders would be to sell British Land properties into a fund, possibly financed by leading overseas institutional investors from the US and Japan, in which British Land would have an equity stake and a management role.

This would release cash for investment during a period when the downturn in the market suggests there might be forced sales. At the same time, it would give British Land a stake in future lifts in the value of the properties.

But British Land might also have been contemplating a degree of unbundling, by hiving off properties or groups of properties. A new capital structure could be created with British Land in the middle, holding stakes in a variety of smaller companies.

The stock market has suspected that something is in the offing. Since Monday of last week, when British Land shares closed at 296p, the price has risen sharply. Between then and yesterday, British Land's market capitalisation increased from £665.8m to £807.5m, prompting the suspension of the shares.

Perrier to take Pepsico to court

SOURCE PERRIER, the French bottled water group, plans to file a lawsuit against Pepsico of the US for terminating its franchise contract with the French group, Reuter reports.

Mr Frederick Zimmer, Perrier managing director, said: "We have notified Pepsico that we are seeking financial compensation for illegal termination of contract because Pepsico has waged a denigration campaign detrimental to Perrier's image."

Pepsico cited poor sales as the reason for terminating its franchise with Perrier.

Akzo sells 85% stake in unit to Agiv

By Laura Raun in Amsterdam

AKZO, the Dutch chemicals and fibres group, is selling a majority of Barmag, its machinery manufacturing subsidiary, to a group made up of Agiv, the Frankfurt-based industrial company, and unidentified investors.

Akzo refused to disclose the sale price of the unit, which has long been mooted as a disposal candidate, but securities analysts estimate that the 85 per cent stake in Barmag is going for somewhere between Fl 300m ($149.4m) and Fl 500m ($249m).

The Agiv consortium is buying the majority stake with effect from January 1 1990, while the remaining 15 per cent will remain in Akzo's hands.

Barmag, which specialises in textile and plastics machinery, hydraulics and high-performance automotive products, is based in Remscheid, West Germany. It posted sales of DM720m in 1988 and employed 4,100 people.

Long targeted for disposal, it is viewed as falling outside Akzo's core activities of speciality chemicals, speciality coatings, pharmaceuticals and advanced fibres.

Agiv, with sales of DM5.47bn and 28,000 employees in 1988, already holds majority interests in machinery factories of Carl Schenck in Darmstadt and Andritz in Graz, Austria.

Barmag has long been part of the Akzo group, which is the result of an amalgamation of Dutch and German chemicals and fibres companies.

The agreement between Akzo and AGIV is subject to approval by the authorities.

Sony details European expansion programme

By Alan Cane

SONY of Japan yesterday announced plans to secure an average 5 per cent share of the European market for workstations within two years.

In countries such as France and Italy where competition is weak and demand high it said it believed it could take up to 10 per cent of the market.

Workstations are high-performance personal computers used by scientists and engineers for tasks such as computer-aided draughting and complex calculations. The market leaders are Hewlett-Packard and Sun Microsystems of the US.

Workstations are one of the fastest growing areas of the world computer marketplace. In the UK alone, the total market is expected to grow from £400m in 1990 to £600m ($938m) in 1991.

Mr Masato Nakamura, Sony's European general manager for the computer industry, said the company believed it was an area where Sony could become one of the leading players.

The company also launched two workstations in its News family based on the fashionable Unix operating software.

The more powerful machine is based on a special microprocessor chip developed by the US company Mips, which gives a fourfold increase in power over Sony's earlier machines.

Despite the success of Toshiba in portable computers and Epson in printers, Japanese companies have not been able to repeat their domination of electronics markets, through video recorders and televisions, in small computers.

Already, Mr Nakamura said, Sony was unable to compete outside Japan with low-end machines manufactured in Taiwan and Hong Kong.

The company intended to strengthen its network of distributors and niche market specialists.

Mr Nakamura said the company believed that, for the moment, selling hardware alone would prove more profitable than attempting to sell systems solutions.

Italian journalists strike for curb on Berlusconi

By John Wyles in Rome

FEARS that Mr Silvio Berlusconi may soon add control of the Mondadori publishing group to his dominant position in Italian commercial television have sparked strike action by Mondadori journalists. Political demands for an anti-trust law to curb media concentrations were growing yesterday.

La Repubblica, Italy's best-selling national daily failed to appear yesterday because of action by journalists still loyal to their founding editor, Mr Eugenio Scalfari, although he was instrumental in selling the newspaper to Mondadori last June.

Journalists were also organising protest stoppagss throughout Mondadori, Italy's largest publishing group.

Mr Scalfari, who is now a member of the Mondadori board, told his staff on Monday that a new management regime would have to sack him, because he would not resign.

The possibility has aroused considerable glee in that wide swath of the Italian political establishment which has been lashed by Mr Scalfari'e pen since he founded La Repubblica in 1976.

Only the Communist Party and left-wing Christian Democrats (DC) appear serious about organising an anti-trust defence against Mr Berlusconi, since without Mr Scalfari they would be left without any real friends in the national press.

Italy does already have a law against concentration of newspaper ownership, stating that one proprietor may uot account for more than 20 per cent of circulation. This has not been applied in recent years against Fiat's control of both La Stampa and Corriere Della Sera, though.

Nor would it affect Mr Berlusconi, whose only newspaper is Il Giornale, which has a relatively low circulation. The DC leadership in the lower parliamentary house decided yesterday to devise anti-trust clauses for the media for insertion in a general anti-trust bill which is still in committee.

Mr Carlo De Benedetti, was yesterday preparing for a meeting tomorrow of the Mondadori board, which is guaranteed to go smoothly following the resignation last weekend of the Formenton family representatives. Comprised entirely of 10 De Benedetti representatives and supporters, the board will call a special shareholders meeting to decide on a capital increase.

Mr De Benedetti is confident that this exercise will yield him full control of Mondadori because of the structure of the company's capital, which is nearly equally divided between ordinary and privileged shares.

The Amef holding company, now controlled by the Formenton-Berlusconi axis, has 50.3 per cent of the ordinary shares, but, as far as is known, none of the privileged.

Mr De Benedetti has 17.1 per cent of the ordinary and 71 per cent of the privileged. If both sides fully underwrite their entitlement then Amef would lose its majority of ordinary shares to Mr De Benedetti, whose crucial card is his control of privileged shares.

Control of La Cinq contested

By William Dawkins

MR Jérôme Seydoux, chairman of Chargeurs, the French transport group, last night launched an appeal against a court decision awarding control of La Cinq, the loss-making private television channel, to Mr Robert Hersant, the French media baron.

The Paris Commercial Court had earlier ruled that Mr Silvio Berlusconi, the Italian commercial television magnate, had acted illicitly in trying privately to get control of a block of shares that would have given his camp effective dominance over La Cinq.

Mr Berlusconi owns 25 per cent of the equity, the maximum single stake allowed under French broadcasting industry law, while Chargeurs holds another 6.9 per cent.

Mr Berlusconi had tried last October to transfer to Chargeurs a pivotal 16.8 per cent stake, owned by the Mutuelles Agricoles insurance company, which was prepared to sell to his camp, thus giving the Italian businessman and his supporters 48.7 per cent control.

However, all of La Cinq's shareholders should be allowed the right to offer for Mutuelles Agricoles' shares, ruled Mr Philippe Granjean, chairman of the court. This implied no judgment on the relative management merits of the opposing camps, he said.

Until Chargeurs' last-minute announcement, this seemed to have brought to an end one of the most colourful battles in the volatile French television industry.

Mr Berlusconi wanted control because he objected to the management style of Mr Hersant, who is also proprietor of Le Figaro, the right-wing newspaper.

The Italian held him responsible for larger-than-expected losses of FFr2.2bn ($362m) since La Cinq started broadcasting in early 1987.

Mr Hersant, who owns 25 per cent, has the backing of Mr Jean-Marc Vernes, the leading French banker, with 10.8 per cent, making him the most powerful figure as long as the court decision against Mr Berlusconi stands.

The financial newspaper Les Echos, owned by UK group Pearson – to which the Financial Times belongs – holds another 3.67 per cent stake, which it also wants to sell.

La Cinq's popularity has grown recently, and it now accounts for 15 per cent of a market served by seven television stations. However, it has regularly broken official limits on advertising times and the broadcasting of non-European programmes such as US thrillers.

● Compagnie Financière de Suez, the French holding company, said Japan's Chiyoda Mutual Life Insurance had bought an 0.84 per cent stake in Suez's capital in a block trade, Reuter reports.

Deere reports big increase in US farm sector buying

By James Buchan in New York

DEERE, the leading US maker of farm machinery, yesterday reported sharp increases in sales and net income for its fourth quarter to October because of good demand from farmers in the Mid-West.

But profits were held back by a factory strike and were a little less than Wall Street had hoped.

Deere, based in Moline, Illinois, said earnings in its fourth quarter to October rose 28 per cent from the 1988 fourth quarter to $103.2m or $1.37 a share. Sales of farm and industrial equipment to dealers rose 17 per cent to $1.74bn.

The strong fourth-quarter performance helped lift earnings to $380.2m or $5.06 a share, up 21 per cent from 1988 as a whole. Sales of equipment were up 16 per cent at $6.23bn.

In the fourth quarter, which spanned the main harvesting season, profits from equipment sales rose 27 per cent to $66.3m, while earnings from providing credit, insurance and health care went up 42 per cent to $36.6m. Sales of equipment advanced 25 per cent in North America in the fourth quarter.

For 1990, Deere plans to increase its production tonnage by 5 per cent, with the biggest increases in lawn and grounds care equipment, which were affected by a four-week strike in the fourth quarter.

The company expects retail sales of its farm and industrial equipment – mostly for the construction industry – to rise in North America in the current business year.

Mr Robert Hanson and Deere's chairman said: "The recovery in volume in recent years has been very important to our improved results, and this favourable trend is expected to continue in 1990."

He added that new product start-up costs were largely behind the company.

Under new accounting rules, Deere is consolidating its financial services operations. This did not affect earnings, but means that reported revenues in the fourth quarter and 1989 as a whole were $2bn and $7.22bn.

Intel and NEC settle software dispute

By Louise Kehoe in San Francisco

ONE of the most bitter and prolonged legal disputes between US and Japanese chip makers has been resolved in an out of court settlement. Intel Corporation of the US and NEC of Japan have agreed to resolve all outstanding issues in their microprocessor copyright and unfair trade dispute, which began five years ago.

Intel had charged that NEC was infringing its copyrights by cloning the "microcode," or internal software instructions thet manage the functions of its 8086 and 8088 microprocessors. The chips are widely used in personal computers.

The case set legal precedents in the area of software copyright by establishing that microcode, although an integral part of a microprocessor, was protected by copyright. The dispute also came to symbolise a much broader conflict between US and Japanese chip makers involving allegations of "unfair trade" and alleged Japanese copying of US technology.

In a terse joint statement, the companies said yesterday that details of the settlement will not be disclosed. "All remaining issues have been disposed of, the parties have stipulated that the judge's decision will become a final judgment," they said.

An NEC charge that Intel had engaged in unfair competition by casting aspersions on its competitor, suggesting that NEC microprocessors might become the subject of a copyright infringement legal dispute, was to have been tried next month.

In February, Intel suffered a setback in the legal battle when a judge ruled that although its microcode could be the subject of a copyright, the company had forfeited its rights by failing to affix copyright labels to thousands of microprocessor chips.

The judge also ruled that NEC's "reverse engineered" version of the microcode did not infringe Intel's copyrights. Intel had vigorously disputed interpretations of the ruling that characterised it as a defeat. Nonetheless, legal experts said the ruling meant competitors could legally "clone" microcode if they could prove they had not copied the original. Intel said that although it did not agree with parts of the ruling it had settled rather than continue the costly litigation. The case centres on a "10-year-old product that represents less than 1 per cent of our [annual] revenues," it added.

Microprocessors are one of the few sectors of the semiconductor market in which US companies maintain a significant lead over Japanese competitors. Intel is the world leader in the microprocessor market.

The main question left unresolved by the settlement is whether NEC and other competitors are now free to attempt to "clone" Intel's latest microprocessor products, which represent nearly 20 per cent of its revenues.

Mellon Bank to buy 54 US branches from Meritor

By Karen Zagor in New York

MELLON Bank, the big US bank which is expected to post profits this year for the first time since 1986, yesterday said it would acquire 54 branch offices from a unit of Meritor Savings Bank for about $335m, but not less than $309m.

Mr Frank Cahouet, chairman and chief executive of the recently restructured Mellon Bank, said the deal would be financed by issuing about $200m in Mellon common and preferred stock and about $100m of subordinate debt. The Meritor branch offices have deposits of about $5.2bn.

These, Mellon said, would increase its share in the five-county Philadelphia deposit market, the fourth biggest metropolitan area in the US, to 14 per cent from about 5 per cent. The Pittsburgh-based bank added that it would pay a premium of about 6.5 per cent for the deposits. Mr Cahouet said he did not expect any dilution of earnings to result from the transaction in the first three years "on an as-reported earnings basis".

Mellon will receive about $4.9bn in Meritor assets as compensation for liabilities assumed, including $2.7bn of US government agency mortgage-backed securities and $1.5bn of family mortgage loans. Shares in Mellon had slipped $⅞ to $29 at mid-day in New York.

Moody's markdown adds to pressure on Bond empire

By Bruce Jacques in Sydney

PRESSURE continued yesterday on the troubled empire of Perth businessman, Mr Alan Bond. The day started badly when US-based Moody's Investors Services lowered its rating on the main Bond beer subsidiary.

Moody's downgraded $510m worth of Bond Brewing Holdings' subordinated debt to the Ca category, from Caa. The Moody's statement said the downgrading was based on non-payment of a December 1 interest payment.

"Moody's is continuing its monitoring of the ratings of Bond Brewing Holdings' subsidiary, Bond Brewing Western Australia," the statement said.

It was the second downgrading of Bond's beer subsidiaries in a fortnight. Moody's lowered the ratings of both Bond Brewing Holdings and Bond Brewing Western Australia to Caa on November 22.

The latest move comes just three days before the next deadline for Bond Corporation to formally begin the long-delayed sale of its brewery operations to Lion Nathan, the New Zealand brewer.

The brewery deal is due to begin by Bond launching a $A1.60 ($1.25) a share takeover bid for outstanding shares in its offshoot, Bell Resources.

But Australian stock markets signalled they believed there was almost no chance of this going ahead by marking Bell Resources shares down a further 3 cents to 47 cents. The shares had earlier equalled their all-time low at 43 cents.

Negotiations are continuing between Bond and Lion Nathan on changes which may allow the brewery deal to proceed. But matters may have been complicated by the move for board control of Bell by its 19.9 per cent shareholder, the Adsteam group, run by high-profile Australian investor, Mr John Spalvins.

Bond Corporation shares gained 1 cent to 21 cents yesterday, while Bond Media shares eased 1 cent to 15 cents, still 5 cents above the implied value in the proposed bid for the company from Mr Kerry Packer.

Shares in FAI Insurances, the listed company with the biggest Bond exposure, recovered 25 cents to $A2.40, and the chairman, Mr Rodney Adler, said he was "perfectly happy with the situation." FAI has loans of almost $A528m to Bond companies, but Mr Adler believes security is adequate.

● Hong Kong-listed Bond Corporation International (BCIL) said it could realise its full asset value in the case of a compulsory sell-off resulting from financial problems faced by its Australian parent, Bond Corporation Holdings, Reuter reports.

BCIL said in its 1989 annual report that it "would be able to dispose of its investments in an orderly manner and to ultimately realise their aggregate carrying values."

The restructuring of Bond Corporation, which holds 66 per cent of BCIL, could affect BCIL's investment policies and development plans for a project in Italy, it said.

BCIL bought a 50 per cent stake in a site on the outskirts of metropolitan Rome on March 31 this year for about $120m and plans to develop a wholesale distribution complex, office and retail shopping centre there.

Australian regulators veto meeting of Qintex

By Bruce Jacques in Sydney

THE National Companies and Securities Commission (NCSC), Australia's corporate regulator, has vetoed plans by Quintex, the failed media and resorts group, to have fees paid to management approved by a shareholders general meeting.

Mr Ray Schoer, the NCSC's executive director, said yesterday such a meeting would no longer be appropriate. This reverses an earlier statement welcoming the proposal for a meeting from Mr Christopher Skase, the Qintex chairman.

The management fees involve up to $A42m ($33m) paid to companies associated with Mr Skase and some fellow directors, some of which reflected reimbursement of expenses and payment for other services.

Mr Schoer indicated yesterday that the placing of Qintex Australia and several of its subsidiaries in receivership had put the proposed meeting in a new light. "The commission is reinforced in this view by the possibility that there will be a deficiency of assets over liabilities in Qintex Australia," he said.

● Nippon Shinpan of Japan is taking legal action to recover about A$85m it loaned to Qintex, AP-DJ reports.

Nippon Shinpan has filed suit in the Queensland Supreme Court seeking repayment of the loan and interest of around A$1.74m from the company and its chairman. Nippon Shinpan and Mitsui & Co, of Japan, own 49 per cent of Qintex's Mirage Resorts.

Royal Bank of Canada raises loan provisions

By Robert Gibbens in Montreal

THE Royal Bank of Canada, Canada's largest chartered bank, saw profits drop for the year following a big increase in provisions against Third World loan losses.

The bank posted a net profit of C$529m ($457m), or $3.25 a share for the year ended October 31, down 26 per cent from C$712m, or $4.83, in fiscal 1988. The results reflect a $1.1bn addition to Third World loan loss reserves, against $360m a year earlier.

Excluding the special provision, fully-diluted earnings would have been equal to $7.13 a share, up 31 per cent from fiscal 1988.

Return on assets would have been 0.99 per cent, against 0.79 per cent and return on equity 22.2 per cent, against 19.5 per cent. The fourth quarter showed a loss of $195m or $1.54 after the special provision, against net profits of $221m or $1.49 a year earlier.

Domestic business was strong and loans to the North American resource sector improved in performance, and the investment banking subsidiary also did better.

The quarterly dividend is being increased from 55 cents to 58 cents with the February 23 payment, and the common shares will be split two-for-one, effective February 9 next.

The bank says it also plans to raise new permanent capital by issuing more common and preferred stock later in fiscal 1990.

INTERNATIONAL COMPANIES AND FINANCE

Tranquilidade sell-off nets record

By Patrick Blum in Lisbon

THE PART-privatisation on Monday of Companhia de Seguros Tranquilidade, a leading Portuguese state-owned insurance company, raised record revenues for the Government with demand for shares exceeding supply by more than eight times.

Share prices rocketted under the impact of demand led by the Espirito Santo group representing the interests of the Espirito Santo family — Tranquilidade's owners before the company was nationalised during Portugal's 1975 revolution.

The family which is still in dispute with the Government over compensation, had made clear its intention of recapturing control of its former company. Initial estimates suggest that it is well on the way to achieving that objective.

According to analysts, the family group was able to secure, directly and indirectly through allied Portuguese companies, about 60 per cent of the 49 per cent shareholding sold by the Government. This gives it control of 30 per cent to 33 per cent of the company, and places the group in a favourable position when the remaining 51 per cent of the company is sold next year.

Miguel Cadilhe: 'Most successful sell-off yet'

The strong demand pushed prices up to near Esc20,000 ($128.8) per share, almost five times the initial Esc4,400 price per share allocated to the company's employees.

Shares were sold in separate tranches with preferential prices for company employees and small local investors. The price of shares for leading investors averaged Esc13,000 to Esc14,000 per share.

At the end of a hectic day of trading, the Government had raised Esc25.8bn through the sale. A jubilant Mr Miguel Cadilhe, the Finance Minister, said it was "the most successful yet of all the Government's privatisations."

Analysts concurred with the general mood of euphoria. "It shows how much money there is available [for investment]. It is very good news all round. It is good for the budget, it is good for Espirito Santo and it is good for the market," one analyst said.

Another analyst suggested that the success of the flotation would put pressure on the Government to accelerate its privatisation programme. "The Government must do this to give more choice to investors and to prevent prices of single issues rising so high."

The amount raised for just under half of the company exceeded the Esc24bn valuation for the whole company carried out in late 1988.

The difference is thought to have been caused partly because of the strong interest of the Espirito Santo group, partly as a result of an undervaluation of the company, and partly because the valuation failed to take fully into account the company's real estate assets whose valus has soared along with local property prices over the past two years.

International investors including two leading French insurance companies are thought to have secured only a small number of shares despite their strong interest in Tranquilidade.

De Benedetti cousins share stage

MR Carlo De Benedetti is accustomed to the financial limelight. The dynamic entrepreneur's sudden swoops on Italian and foreign companies make page one headlines, writes Daniel Liefgreen of Reuter.

But his little-known cousin, Camillo, is creeping out of Carlo's shadow.

Camillo stole some of Carlo's thunder over the weekend when he bought a share in control of La Fondiaria, the large insurer, for L3,600bn ($2.74bn) from Ferruzzi Finanziaria, Mr Raul Gardini's agribusiness holding.

"I don't think anyone thought Camillo De Benedetti would come away with Fondiaria," said Mr Enrico Ponzone, Italian market analyst at London's Kleinwort Benson.

Rumours swirled for weeks that Fondiaria was up for sale. But there was speculation that Assicurazioni Generali, Italy's largest insurer, would buy Fondiaria.

On Saturday, Ferruzzi Finanziaria announced it agreed to sell its 51 per cent stake in the insurer — the country's third largest — to Gaic, Mr Camillo De Benedetti's investment concern.

In effect, a minnow is swallowing a sea bass.

Gaic ranks 99th in terms of capitalisation on the Milan bourse at L384bn, while Fondiaria ranks 10th. Gaic, involved in a range of merchant banking activities, reported net profit of L6bn for the year ending June 30 1989.

"I am not sure how Gaic is going to finance this," said Mr Ponzone, echoing the view of several brokers and analysts.

Gaic has not given details of funding for the acquisition. It will receive L900bn from Ferruzzi, which is buying joint control of the company, as part of the Fondiaria agreement.

There is also speculation in the market that the Long-Term Credit Bank of Japan, which owns a small stake in Paleocapa, Mr Camillo De Benedetti's family holding, may help finance the Fondiaria deal.

Share-trading in Gaic, Fondiaria and Ferruzzi Finanziaria was suspended on Monday ahead of meetings today with Consob, the stock market regulatory commission, which is seeking additional details about the transaction.

Since Mr Camillo De Benedetti is also vice chairman of Generali, some believe that the Fondiaria sale is part of a broader link-up with Generali eventually.

"I see a grander design in the works," said one Italian equity analyst, who asked not to be identified. "Fondiaria may just be parked in Gaic temporarily," he said.

MR Camillo De Benedetti bought Gaic in 1983 and since then has forged several shareholding alliances with Mediobanca in Italy, and Lazard Freres in France, both merchant banks, and with Mr Eric Rothschild, the investment banker.

Mr Carlo and Mr Camillo De Benedetti made their first formal tie-up in 1987, when Compagnie Industriali Riunite, Mr Carlo De Benedetti's industrial holding, acquired a 15 per cent stake in Gaic. In turn, Camillo took an interest in a Carlo De Benedetti unit.

Thus far, the alliance between the two men remains at the shareholding level and they run two separate business groups.

Unlike his cousin, Camillo shies away from publicity and controversy. The Turin native did not even attend the news conference last Saturday to announce the Fondiaria purchase.

He never gives interviews and is said to have adopted the discreet style of his friend Mr Enrico Cuccia, recognised as Italy's foremost dealmaker for decades at Mediobanca. He is also a long-time friend of Mr Gardini, the chairman of Ferruzzi.

Despite the Fondiaria move, Camillo, 56, has not knocked Carlo off centre-stage.

Carlo remains on the front page after a bitter battle broke out at the weekend with Mr Silvio Berlusconi for control of the Mondadori publishing group.

INTERNATIONAL CAPITAL MARKETS

Positive issue from Boots takes traders by surprise

By Andrew Freeman

THE BELEAGUERED market for corporate borrowers took a positive step forward yesterday when Credit Suisse First Boston brought a $175m seven-year Eurobond for Boots, the UK specialist retail chain and pharmaceuticals group.

The issue, launched as a fixed-price reoffering, surprised some of the participants by performing very well, after a hesitant start. "We didn't think it would go quite as well as it did," said one syndicate manager.

INTERNATIONAL BONDS

The bonds came with a put option at par to protect investors from event risk. A CSFB official said the protection clauses were similar to those on the recent five-year issue for Reed Publishing.

Priced at 101¼, the bonds were reoffered to investors at less 1¼, implying a ⅜ point fee for the underwriting banks. A lead group of CSFB, J.P. Morgan and Morgan Stanley, is understood to have taken roughly 85 per cent of the issue, and from last Thursday was working at pre-placing the bonds.

A relatively slow initial response from investors led to fears the deal may struggle, but this proved chimerical as the launch spread of 100 basis points over US Treasuries found strong interest. Unlike the Reed deal, demand was mainly institutional due to the longer maturity of the bonds.

CSFB broke the syndicate quickly after announcing the final pricing, and the bonds traded at 100.15 bid, implying a spread over Treasuries of around 98 basis points and a good profit for the underwriters.

Proceeds were thought not to have been swapped.

Three Ecu deals, two of them reopenings of existing issues, emerged to meet what traders said was steady demand, particularly from central banks. Merrill Lynch was the first in the market with an Ecu50m five-year fungible deal for Oesterreichische Kontrollbank. The bonds were quoted comfortably inside fees at less 1.60 bid. UBS Phillips & Drew reopened an Ecu100m deal for Crédit Foncier with an Ecu50m tranche, and was quoting the paper at 97.55, well inside fees. The small underwriting group meant there was no real grey market in the bonds.

Late in the day, Deutsche Bank Capital Markets brought an Ecu100m five-year deal for the World Bank. An official said most business would be done today, but was quoting the paper at less full fees in early trading.

Hambros Bank was the lead manager of its second Canadian dollar deal, a C$75m two-year issue for Svenska Handelsbanken. The bonds offered a spread of 49 basis points over the equivalent government bonds, and were trading at less 1.10 bid, inside fees.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
CME Finance(h)♦	575	(h)	102	1999	2⅞	Nomura Int.
CME Capital(h)♦	50	(h)	102	1999	2⅞	Nomura Int.
Boots Co.(d)♦	175	9	101¼	1997	1⅜/1.875	CSFB
Union Bank of Finland(d)♦	21	8½	101½	1993	1⅛/⅜	LTCB Int.
Towa Real Estate Dev.(e)♦	150	2⅜	100	1993	2¼/1½	Nomura Int.
STC Corp.(f)♦	30	1¼	100	2004	2¼/1½	CSFB
CANADIAN DOLLARS						
Svenska Handelsbanken(d)♦	75	11¼	101.95	1992	1⅛/⅝	Hambros Bank
ECUs						
World Bank(d)♦	100	8½	101⅞	1995	1⅞/1⅛	Deutsche Bank Cap. Mkts
Oest. Kontrollbank(g)♦	50	8½	101⅞	1994	1⅞/1⅛	Merrill Lynch Int.
Credit Foncier de France(i)♦	50	8	99.18	1996	1⅞/1⅛	UBS Phillips & Drew
D-MARKS						
Nissho Corp.♦	250	1⅝	100	1993	2¼/1½	Deutsche Bank
Dynic Corp.♦	100	(1⅝)	100	1993	2¼/1½	Deutsche Bank
SWISS FRANCS						
Somar Corp.(a)★‡§	60	¼	100	1995	1⅞	Nomura Bank(Switzerland)
Mitani Corp.(b)★‡	50	Zero	100	1994	1⅞	Bank Leu
Kurabo Industrial Co.(c)★‡♦	10	8⅞	100	1994	n/a	Fuji Bank (Schweiz)

★★Private placement. ‡With equity warrants. §Convertible. ♦Final terms. a) Yield to put 3.288%. b) Yield to put 3.432%. c) Call June 1992 at 101¼ decreasing ¼% semi-annually. d) Non-callable. e) Coupon cut by ⅛% from indication. f) Coupon indicated between 1⅛-1½%. Put Dec.1994 to yield 5.274%. g) Fungible with existing Ecu100m issue from Dec.1989. Non-callable, issue price plus accrued interest. h) Step-up coupon: from Dec.89 7.285%, from Dec.90 7.275% and from Dec.1994 7.810%. i) Fungible with Ecu100m launched in May. Non-callable.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on December 5

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Austria 9⅛ 93	140	103⅛	103⅝	-0⅛	0	8.38
B.F.C.E. 8⅞ 94	175	99¾	100¼	0	0	8.36
B.F.C.E. 9¼ 95	150	103¼	103¾	-0⅛	0	8.48
Brit. Tel. Fin. 9⅛ 98	250	104	104½	0	+0⅛	8.67
Canada 9 96	1000	103½	104	-0⅛	-0¼	8.19
C.C.C.E 9¼ 95	300	103¼	103⅝	-0⅛	0	8.41
C.N.C.A 9⅛ 93	150	102½	102¾	0	0	8.53
Credit National 8⅛ 93	200	99⅝	100⅛	-0⅛	+0⅛	8.27
Credit National 7⅛ 92	100	97¼	98¾	0	+0⅛	8.24
Credit National 9½ 92	160	†102½	103	0	+0⅛	8.43
Dai-Ichi Kan 9¼ 92	150	102⅝	103	-0⅛	+0⅛	8.50
Denmark 8¼ 94	150	†99	99½	0	+0⅛	8.43
E.E.C. 7 91	100	97½	98	0	+0⅛	8.27
E.E.C. 10 93	140	†104½	104⅞	0	0	8.32
E.I.B. 8½ 99	150	99¾	100⅛	+0⅛	0	8.52
Eurofima 10⅛ 93	100	†104⅝	105	0	0	8.38
Elec. De France 9 98	200	102⅞	103⅛	0	0	8.47
Elec. De France 9½ 99	200	105½	105⅞	-0¼	+0⅛	8.58
Finland 9 96	250	102¼	102¾	-0⅛	-0⅛	8.46
Finn.Exp.Cd. 8½ 92	200	100⅛	100⅝	0	+0⅛	8.28
Finn. Exp. Cd. 9⅝ 95	200	103½	104	0	0	8.53
Ford Motor Credit 8 91	250	†99	99½	0	+0⅛	8.57
Gen.Elec.Cap.Corp. 9 93	500	†102	102½	0	+0⅛	8.31
Gen.Elec.Cap.Crp.10 1/2 91	300	102⅛	102⅜	0	0	8.40
G.M.A.C. 9 96	300	100⅞	101⅜	0	+0⅛	8.78
Gen.Mtrs.Corp. 9⅛ 92	200	101⅝	102	0	+0⅛	8.37
IBM Credit Corp. 8⅞ 92	400	100½	100⅞	0	+0⅛	8.36
IBM Credit Corp. 8¾ 91	250	100⅞	101½	0	+0⅛	8.34
IBM Credit Corp. 9 92	250	†101⅛	102½	0	+0⅛	8.14
IBM Credit Corp. 9½ 92	250	101⅞	102⅛	0	0	8.37
Italy 8½ 94	1500	100⅜	100⅞	-0⅛	0	8.33
Italy 9½ 95	1000	104⅛	104⅝	0	-0⅛	8.53
Italy 9⅞ 99	1000	106⅛	106⅜	-0⅛	-0⅛	8.60
Itoh C. W/W 4⅛ 94	1000	110⅜	111⅜	+0⅛	-0¼	2.04
Japan Dev. Bank 10 96	200	107⅜	107⅝	0	+0⅛	8.42
KFW Intl. Fin. 9 94	300	102⅛	102½	-0⅛	+0⅛	8.39
L.T.C.B.of Japan 9⅛ 92	200	101½	102⅛	0	+0⅛	8.53
Nippon Tel.&Tel. 9⅛ 98	250	104⅜	104⅞	-0⅜	+0⅛	8.61
Norway 8¾ 93	500	101⅝	101⅞	0	-0⅛	8.14
Portugal 8¼ 91	300	†98⅞	99⅛	-0⅛	0	8.93
Sumitomo Corp. W/W 4 93	1500	123⅝	124⅝	-2¼	-0⅞	-2.40
Sweden 8¾ 96	200	101¼	102⅛	0	+0⅛	8.31
Sweden 8½ 92	200	†99⅝	100½	0	+0⅛	8.52
Toyota 9½ 91	200	101⅛	102⅛	0	+0½	8.38
Toyota Mtr.Corp. W/W 4 93	1500	†106½	107½	0	-0⅛	1.91
Victorian Rep 11⅝ 92	150	105¾	106¼	0	+0⅛	8.69
World Bank 8⅞ 99	1500	101⅜	101⅞	+0⅛	+0⅜	8.39
World Bank 9 97	300	102⅞	103⅜	0	0	8.42
World Bank 9 93	300	102⅛	102½	-0⅛	-0⅛	8.22
World Bank 9¼ 98	300	104⅛	104⅞	0	+0⅛	8.51
World Bank 9⅛ 99	500	106⅝	107	-0⅛	0	8.52
World Bank 9¾ 96	300	106⅛	106⅝	+0⅛	0	8.43

Average price change... On day -0⅛ on week 0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	91⅞	92¼	+0¼	+0⅛	7.99
Austria 6¾ 99	750	93⅞	94⅛	-0⅛	+0⅛	7.64
Bk.Frgn.Econ.USSR 7 96	750	†93⅞	94⅛	0	-0⅛	8.22
Bank of Tokyo 5¼ 93	100	93½	94	+0¼	+0⅜	8.01
Commerzbank o/s. 5⅛ 93	300	93⅜	93⅞	+0⅛	+0½	7.76
Credit Foncier 6¼ 99	500	93½	94	+0⅛	+0⅛	8.75
E.I.B. 6⅛ 99	600	90½	91⅛	-0⅛	0	7.69
E.I.B. 6½ 99	300	94⅛	94⅞	-0⅛	0	7.33
E.I.B. 6⅝ 96	600	95½	96⅛	-0⅛	+0⅛	7.45
E.I.B. 6⅞ 95	300	97⅛	98⅛	0	+0⅛	7.35
Euro.Coal& Steel 5⅞ 97	175	89¾	90⅛	-0⅛	-0⅛	7.78
Eurofima 6¼ 96	100	91⅞	92¼	0	+0⅛	7.87
Elec De France 5¾ 97	300	90½	91⅛	+0⅜	+0⅜	7.36
Hydro-Quebec 6¾ 99	300	92¼	93½	0	-0⅛	7.81
Japan Dev. Bk. 5⅛ 95	300	90⅛	90⅞	-0⅛	-0⅛	7.57
Japan Finance 5¼ 97	100	88⅛	89	-0⅛	+0⅛	7.85
I.A.D.B. 7¼ 99	300	96⅞	97⅛	-0⅛	-0½	7.68
Ireland 6½ 97	300	91⅛	91⅞	-0⅜	-0½	8.08
Ireland 7¼ 99	500	95⅞	96½	0	+0⅛	7.81
Malaysia 6¼ 94	150	93⅜	93⅞	-0⅛	-0½	7.99
Nat. West BK. PLC 6 98	300	87½	88⅛	0	-0⅛	8.03
N.H.L. Finance 6¼ 95	200	†88⅛	89⅛	-0½	-2½	8.70
Nippon Telg.&Tel. 6 95	400	93⅞	94⅜	+0⅛	+1⅛	6.50
Oesterr. Kontbk. 5 93	300	91½	92⅛	0	-0⅛	0.01
Portugal 5¾ 92	150	94⅜	95⅛	+0⅛	+0⅛	8.00
Portugal 6⅛ 95	150	94½	95⅛	-0⅛	-0⅛	7.77
Privatbanken 5¾ 93	150	91⅞	92½	-0⅛	-0⅛	8.10
Royal Insurance 5½ 92	300	94⅛	94⅞	+0⅜	+0½	8.15
Turkey 6½ 95	500	91⅛	92⅛	+0⅛	-0½	8.38
Union Bk.Finland 5½ 94	200	90⅛	91	+0⅜	-0⅛	8.27
World Bank 6 90	300	88⅛	89⅛	-0⅛	0	7.78
World BK. 6¼ 97	600	91⅛	91⅞	-0⅛	0	8.52
World Bank 6¾ 99	600	93⅞	94⅛	+0⅜	+0½	7.62

Average price change... On day 0 on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†90	91	0	-0⅞	6.82
Asfinag 5 03	100	†85	86⅛	-0¼	-0⅛	6.61
B.F.C.E. 4½ 98	200	†87¾	88	+0¼	+0⅜	6.37
B.M.W.Fin.Neth. 5 13	150	†85	85½	-1⅛	0	6.21
Britannia B/S. 4¼ 94	100	†86	88	0	0	7.76
CIR. Int. W/W 3 93	125	†88	90	0	-0½	6.50
Credit Lyonnais 4¼ 00	100	†86½	87½	+0½	+0⅛	6.49
E.I.B 4⅜ 98	150	†86¾	87½	-0⅛	-0⅜	6.64
Finn. Exp. Cd. 8¾ 92	75	†100¼	100¾	+0⅜	+0⅜	8.03
Fletcher Chall. 4¾ 98	150	†83	83¼	-1⅛	-0½	7.68
I.A.D.B. 6 2004	200	†95⅞	96	-0⅛	-0⅛	6.44
Kobe City 4⅞ 98	150	†87	88	+0½	0	6.57
Leeds Perm. B/S. 4⅛ 93	200	†88½	89	-0⅜	-0⅜	8.07
Malaysia 5¼ 98	100	†84	84½	-1⅛	+0⅛	7.83
Maxwell Comm.Crp. 5 95	150	†79½	80	-0¼	+0⅜	9.92
Nat. Bk. Hungary 5½ 94	75	†86	87½	0	-1	8.87
Nationwide Ang.B/S. 4 93	200	†88	88¾	0	-1⅛	7.89
Prov. Newfoundland 5 03	150	†84½	85½	+0⅛	+0⅛	6.68
Thailand 4⅛ 95	200	†86	87	0	-0½	7.67
World Bank 5 93	150	†87½	88½	+0¼	+1¼	6.33

Average price change... On day -0⅛ on week -0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	99⅞	100⅛	0	+0⅛	6.09
Canada 5⅛ 93	80	98⅜	99	-0⅛	-0⅛	6.01
Eurofima 5 1995	20	95⅛	95⅞	0	+0⅛	5.97
E.I.B. 4⅞ 93	30	96⅛	96⅝	0	0	6.09
Ireland 5⅞ 93	30	96⅛	96⅞	0	0	6.25
Norway 5⅛ 95	50	96⅜	97⅛	0	+0⅛	5.79
Sweden 4⅝ 93	50	95⅜	95⅞	0	+0⅛	6.02
World Bank 5⅛ 98	10	94⅜	95⅛	0	+0⅛	5.90
World Bank 7 94	20	103⅜	104⅛	0	0	5.96

Average price change... On day 0 on week +0

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10⅜ 94 C$	150	96⅛	96⅝	-0⅛	-0⅛	11.21
Abbey Nat. 11⅞ 93 £	100	95⅜	95⅞	-0⅛	-0⅛	13.37
Aegon 7⅜ 92 FL	100	100⅜	100⅛	0	+0⅜	7.86
Alg. Bk. Ned. 5⅞ 93 FL	200	93	93½	0	0	8.16
Austria 7½ 94 ECU	100	93½	94	-0⅛	+0⅛	9.31
Barclays Aus.13½ 91 A$	100	97½	98	+0⅛	-0¼	14.90
Belgium 8⅛ 94 Ecu	150	95⅜	95⅞	-0⅛	0	9.40
Bell Canada 10⅞ 04 C$	200	101	101½	-0⅛	-0⅛	10.69
BP Capital 9¾ 93 £	100	91⅛	91⅛	-0⅛	-0½	13.03
British Airways 10 98 £	100	88½	89	-0⅛	-0¼	12.22
Brit. Telecom 9½ 93 £	150	90⅞	91⅜	0	-0½	12.96
Comm. Bk.Aust. 12⅝ 93A$	100	†93⅛	93⅜	-0⅛	-0⅛	15.13
Comm.Bk.Aus.13⅛ 94 NZ$	60	†104	105	0	0	12.38
Credit Foncier 9 96 Ecu	100	98	98½	-0⅛	+0⅛	9.35
CrLocalFrance 9⅛ 92Ecu	100	99	99½	-0⅛	-0⅛	9.55
Deut. Bk.Aus. 13⅛ 93 A$	125	†96½	97	0	+0⅛	14.50
Deutsche Bk.Fin. 15 94 A$	100	†102⅞	103⅛	0	+0⅛	13.93
Elec.De France 9⅛ 99C$	150	95⅛	95⅝	-0⅛	-0⅛	10.52
E.I.B. 7 96 LFr	100	†95	96	0	0	7.94
E.I.B. 7⅛ 99 FL	150	94⅝	95⅛	0	0	7.89
E.I.B. 9 99 Ecu	150	98⅜	98⅞	-0⅛	+0⅛	9.21
Eurofima 7⅛ 94 Ecu	100	94⅜	94⅞	+0⅛	+0⅛	9.23
Export Dv.Crp.8⅞ 92Ecu	100	98⅜	98⅞	-0⅛	+0⅛	9.43
Fed. Bus.Dv.Bk. 9 94 Ecu	100	98⅛	98½	-0⅛	0	9.46
Fed.Bus.Dv.Bk.9⅛ 92 C$	75	†97⅛	97⅜	-0⅛	+0⅛	10.89
Ferrv. Stato 7⅞ 93 Ecu	100	94⅛	94⅝	0	-0⅛	9.69
Ford Cr.Can.10⅛ 93 C$	100	†98⅛	99⅛	+0⅛	+0⅛	11.15
Ford Cred.Can.10⅞ 96C$	125	99⅛	99⅛	0	0	10.99
Ford Cred.Fund.10⅛ 93£	60	93½	94⅛	-0⅛	-0⅛	12.86
G.M.A.C.Canada 11 3/4 94C$	100	101½	102	-0⅛	-0⅛	11.18
Heineken 7⅛ 94 FL	150	100⅛	101⅜	+0½	-0⅛	7.69
Hydro-Quebec 11 99 C$	400	101¼	102	0	+0⅛	10.65
Lloyds Bank 10⅛ 98 £	150	89½	89⅞	-0⅛	-1	12.35
Lloyds Bank 11⅞ 98 £	100	91⅞	92½	-0½	-0⅜	12.87
Montreal Tst. 10⅛ 93 C$	100	†97⅛	98⅛	-0⅜	-0⅛	11.45
Nat. Aus. Bk. 14⅞ 94A$	100	†98⅞	99⅝	0	0	14.99
New Zealand 9½ 93 £	100	90⅛	90⅜	+0⅛	-0⅛	13.09
O.E.K.B. 10⅛ 99 C$	150	98	98⅜	-0⅛	-0⅜	10.55
Royal Bk.Scot.10⅛ 98 £	125	91⅛	91⅛	-0⅛	-0⅛	12.34
Saskatchewan 10⅛ 93 C$	200	97⅛	98⅛	0	-0⅛	10.93
State Bk. NSW. 13⅞ 93A$	100	†96½	97	0	+0⅛	15.01
Sweden 7½ 93 Ecu	250	93⅝	94¼	-0⅞	+0⅜	9.38
Sweden 15 94 A$	100	†102⅞	103⅛	0	+0⅛	13.96
Toronto-Dom. 11½ 91 C$	100	100½	100⅞	-0⅛	-0½	11.12
Toyota Mtr.Cr.10⅝ 94C$	150	97½	98	-0⅛	-0⅛	10.93
Toyota Mtr.Cr.11⅛ 92C$	150	100⅝	101	0	0	11.00
World Bank 7⅛ 99 FL	300	94⅝	95⅛	0	+0⅛	7.90
World Bank 13⅜ 92 A$	100	†100⅛	101⅛	+0⅛	+0⅜	12.87
World Bank 14¼ 94 A$	75	100⅛	101⅛	0	+0⅛	15.93
Zentrspk. 13⅛ 93 A$	75	†96⅜	96⅞	0	+0⅛	14.41

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.74	99.79	24/01	15.21
Bank of Greece 99 US$	0¼	99.56	99.67	8/03	9¼
Belgium 91 US	0	100.13	100.23	21/02	8.81
Chelt.& Gloucester 94 £	.063	99.73	99.78	30/11	14.06
Credit Foncier 98 US	.063	99.94	100.04	20/04	8.31
Dresdner Finance 99 DM	.031	100.08	100.19	28/01	8.16
EEC 3 92 DM	0	100.08	100.18	22/02	6¾
Halifax BS 94 £	.1	100.06	100.11	9/02	15.16
Inst. in Industry 94 £	0¼	99.95	100.06	24/11	14.06
Leeds Perm. B/S. 94 £	0⅛	100.04	100.09	15/01	15.37
Milk Mkt. Brd. 5 93 £	0⅛	99.79	99.84	29/12	14.94
New Zealand 5 97 £	.07	100.04	100.14	22/11	14
Northern Rock 92 £	0½	99.82	99.87	20/01	5¼
State Bk. Nsw. 98 US	.188	100.00	100.10	11/02	8.81
Woolwich Equit.BS. 93 £	0¼	99.92	99.97	15/01	15.37
Woolwich 5 95 £	0⅛	99.89	99.94	21/11	14.06

Average price change... On day +0.00 on week +0.03

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	†8/87	62.	118½	119⅛	-0½	0.04
Amer. Brands 7¼ 02 US	9/87	56.7	125¾	126⅞	-0¼	-1.34
CBS. Inc. 5 02 US	4/87	200.	103¼	104¼	+0⅛	3.50
Dai-Ichi Kan. 3⅞ 04 US	7/89	3486.	97¾	98¾	-0¼	7.03
Primerica 5½ 02 US	†4/87	66.75	74	75	0	67.16
Eng. China Clay 6½ 93 £	9/88	4.8	89	90	+0⅜	5.55
Fujitsu 3 99 US	5/84	1106.	213	214	-4¾	-3.89
Ladbroke 5¼ 04 £	6/89	7.1	100¾	101¾	+0¼	134.16
Land Secs. 6¾ 02 £	6/87	6.72	85⅞	86¼	+0⅛	9.87
Minolta Camera 2¼ 94DM	2/86	1804.	111¾	113¼	+3¼	11.12
MCA Inc 5¼ 02 US	9/87	69.62	105¼	106¼	-0½	8.87
Mitsubishi Bk. 3½ 04US	5/89	3266.	95⅞	96⅞	-0¼	4.51
Next Plc 5¾ 03 £	11/87	4.3	93⅞	94⅞	-0¼	388.93
Nishi Nipp Bk 2⅞ 03 US	4/88	806.	140¼	141½	-0⅞	0.23
Goodman Inc. 6 1/2% 04 US	10/89	28.	102⅝	103⅝	+0¾	18.44
Omron Tateisi 2⅞ 02 US	4/87	1310.	284½	285½	0	-1.69
Ranks Hovis 4¼ 03 £	†1/88	3.5	118¾	119¾	0	0.09
Redland 7¼ 02 £	1/87	5.4	102⅞	103⅞	0	2.05
Saatchi&Saatchi 6¾ 03 £	†10/89	4.41	89⅞	90¼	-0¼	48.24
Silicon Graphics 8 04 US	6/89	23.18	117¼	118¼	-0½	6.00
Sumitomo Bank 3¼ 04 US	2/89	3897.	88¼	89¼	0	4.39
Texas Inst. 2¾ 02 US	9/87	82.87	77½	78½	+0¼	78.32
Utd.N'papers 8 04 £	10/89	8.77	116¼	117¼	+2½	115.08
W.R. Grace 6¼ 02 US	9/87	42.12	92	93	+0⅜	26.72

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

US extends probe into Chicago pits fraud

By Deborah Hargreaves

THE US Government this week extended its probe into widespread fraud at Chicago's futures exchanges when it began hearing evidence from more traders at the Chicago Mercantile Exchange (CME).

The Federal Bureau of Investigation is understood to have issued subpoenas to traders in the exchange's bellwether Standard & Poor's 500 index futures pit as well as to several traders in live hog futures. The additional subpoenas follow recent indictments of two traders in the CME's Swiss franc futures pit on charges of defrauding customers.

The FBI undercover investigation into futures fraud resulted in the indictment of 46 traders in August on varied charges of trading abuse. With trials for the indicted traders due to start this month, the FBI is continuing to broaden the scope of its investigation.

News of the fraud probe leaked out at the beginning of the year and was followed by a wave of some 300 subpoenas covering four futures pits in Chicago. Undercover agents had posed as traders in the Chicago Board of Trade's Treasury bond futures and soyabean futures as well as the CME's yen futures and Swiss franc futures for two years, gathering evidence of alleged malpractice with hidden microphones.

The FBI is understood to be looking at trading in the CME's S&P 500 index futures during the 1987 stock market crash when trading was fast and furious. As the CME's market leader in the run-up to the crash, the S&P 500 index futures was on several occasions the target of customer complaints about poor order-filling. Since the crash, volume in the contract has dropped off from its peak by almost a third.

The FBI fraud probe has sparked much debate about tougher regulation in the futures industry. Congress is set to pass a far-reaching market reform bill next year.

Merrill plugs high-quality stocks for 1990s

By Rachel Johnson

HIGH-QUALITY, dividend-paying stocks will be the buy of the 1990s as interest rates come down and bonds mature, the head of Merrill Lynch consumer markets advised yesterday.

Mr John Steffens urged individual investors to try to forget reservations about short-term volatility and capitalise on the "attractive long-term returns historically provided by equities."

Merrill Lynch's recommendation, however, was followed by a renewed caution about the volatility of the equity market. It would remain a fact of life in the markets, in spite of legislative action and programme-trading curbs, Mr Steffens said.

However, growing numbers of investors would realise they could avoid the pitfalls of volatility by taking a long-term perspective to investing — a "get-rich-slowly" approach." Investors could diversify their assets among various types of investments in a process of asset allocation.

He predicted that "packaged products," such as mutual funds and unit investment trusts, would become increasingly popular.

Merrill Lynch said it was a misconception to dismiss the individual investor as unimportant. The bank had almost $330bn in client accounts, up nearly 20 per cent in 1988 alone.

"Individuals are in the markets, they are just currently not heavily in the stock market," he said.

Italian mutual funds improve redemptions

ITALIAN MUTUAL funds recorded net redemptions of L255bn ($196m) in November, slightly up from the net outflow of L244bn registered in October, Reuters reports.

Gross sales fell to L763bn from L1,036bn while gross redemptions slipped to L1,007bn from L1,280bn.

Net assets of the mutual funds industry rose, however, to L48,789bn from L48,078bn.

The negative result was due largely to fixed-income funds, which recorded net redemptions of L219bn in November, compared with L33bn.

INTERNATIONAL CAPITAL MARKETS

Daiwa Securities aims for a wider global dimension

The newly-installed president of the second biggest Japanese securities house talks to Stefan Wagstyl

The Japanese securities industry tends to live in the shadow of Nomura Securities, the country's and the world's largest stockbroking group.

Even for Daiwa Securities, the second biggest company, comparisons with Nomura are inevitable – and are rarely flattering.

But Mr Masahiro Dozen, the newly-appointed president of Daiwa, bristles at suggestions that Daiwa is merely a smaller version of Nomura. He argues that the company is radically different in character in ways which will greatly benefit Daiwa over the next decade.

Nomura's strength comes from its management structure, its ability to organise cohorts of people, says Mr Dozen. Daiwa is a more flexible company where individuals have more freedom. Critics say this sometimes makes Daiwa look ramshackle compared with the slick Nomura machine. But Mr Dozen says the increasing internationalism of securities markets means that the needs of investors are becoming more and more diversified. Clients will demand a more individual approach. "The world is changing. Maybe it's changing our way," he says.

Mr Dozen will have plenty of opportunities to prove he is right since he can expect to run Daiwa until the mid-1990s. The continuing deregulation of the Tokyo financial markets combined with the growing sophistication of Japanese investors and the spread of computerisation in the Japanese securities industry, should provide great scope for Daiwa to show that its brand of individualism works.

At the age of 52, Mr Dozen is one of the youngest men ever to head a Big Four securities group. He is also one of the first to head a major Japanese group of any kind following a long tour of overseas duty. He was in New York for nine years to 1979, followed by three years in the international department in Tokyo. In the past such a record would almost certainly have eliminated an executive from being considered for the top job – presidencies tend to go to head office insiders.

He speaks English well enough to joke about his name. When he was appointed in October, Daiwa clients were invited to buy twelve selected stocks, he says. They were dubbed "Dozen's dozen."

Mr Dozen has huge resources at his command. Daiwa's consolidated assets at the end of March totalled Y5,148bn (then $39bn). In the six months to September this year it made unconsolidated pre-tax profits of Y171bn – well short of Nomura's Y249bn, but comfortably ahead of Nikko Securities' Y130bn and Yamaichi Securities' Y118bn.

Daiwa has been gaining ground in the 1980s, mainly at the expense of Nikko. Daiwa's share of the Big Four's profits has grown during the decade from 17 per cent in 1980 to 25 per cent in the six months just ended. Nikko's has fallen from 24 per cent to 19 per cent. Over the same period Nomura's share has also declined – from 44 per cent to 37 per cent – but Nomura's decline is illusory because the profits of its

Masahiro Dozen: clients need a tailored approach

unconsolidated associates including Kokusai Securities, have soared.

Daiwa's success is largely credited to Mr Sadakane Doi, president from 1980 until he stepped down in Mr Dozen's favour a month ago. The move took brokers in Tokyo by surprise since Mr Dozen became a deputy president, and possible heir, only in June. Mr Doi will stay on as deputy chairman, prompting speculation that he will remain the power behind the throne.

One theory is that Mr Dozen was promoted early in order to rid the group of any taint of the Recruit financial scandal which relates to events which took place during Mr Doi's presidency. Daiwa was the lead manager for the flotation of Recruit Cosmos, the company at the centre of the affair.

Within weeks of Mr Dozen taking charge Daiwa has become involved in a scandal of its own – the disclosure that in the late 1970s it covered clients' trading losses to the tune of Y10bn. The Ministry of Finance is investigating whether Daiwa broke the law.

Assuming Mr Dozen gets through this affair unscathed, one of his biggest priorities is to make Daiwa more international in outlook. His own past experience overseas makes him eminently suited to the task.

Like the rest of the Big Four, Daiwa is dominated by the sheer size of its domestic operation. Profits from overseas subsidiaries in the six months to March 1989 accounted for just 7 per cent of the consolidated group total. Daiwa employs 360 people in New York, and under 400 in London, against over 8,000 in Japan.

However, the traditional business of broking Japanese equities is under pressure. The Ministry of Finance has successfully forced the Big Four brokers to reduce their share of Tokyo Stock Exchange turnover in order to deflect charges that they run an oligopoly. Also commissions have been steadily cut.

Daiwa is particularly vulnerable because its income from underwriting as opposed to broking is relatively low – in the six months to September 1989 it made 25 per cent of its commission income from underwriting and distribution, against 29 to 34 per cent for the rest of the Big Four.

The company wants to make its domestic core more outward-looking – in order to broaden the range of securities sold at home to include more foreign products. It is increasingly promoting executives with international experience to senior posts at home – just as Mr Dozen himself was.

Mr Dozen says this process of education in international aspects of the business is very important. Young people are being given more and more responsibility in the Japanese securities industry – this has to be matched by proper training, says Mr Dozen.

Overseas, Daiwa has built a very profitable business in London. But this has been done largely on the back of matching Japanese borrowers and lenders in the Euromarkets. The company has had little success in penetrating local domestic markets. The same is true in New York, where Daiwa, like other houses, was forced by losses to cut its staff after the 1987 stock market crash.

New York has become profitable, thanks mainly to a strong revival in Japanese interest in US securities this year. Daiwa is doubling the capital of its US subsidiary to $200m. Mr Dozen says the company would not have done that a year ago but now New York has proved itself.

He says Daiwa's guiding principle in foreign expansion has been to rely on its own resources. Critics say this is making a virtue out of necessity – unlike Nomura, Daiwa has been unable to find the right US partners, especially in mergers and acquisitions. But Mr Dozen says joint ventures in key areas like corporate finance easily lead to conflicts of interest. Daiwa has avoided making a deal like Nomura's $100m investment in Wasserstein, Perella, the Wall Street mergers and acquisitions boutique.

Daiwa has signed cooperation pacts in M&A with Credit Agricole in France and with Fiat in Italy, but these companies are more like clients than competitors in corporate finance, says Mr Dozen. Nevertheless, Mr Dozen says Daiwa will become more flexible. "The world is getting smaller so we will change our attitude. there will be more partnerships in future."

This autumn the group agreed with Goldman Sachs, the US investment house, to establish a joint venture to sell US property to Japanese investors. Other deals may follow but Mr Dozen rules out the possibility of any wide-ranging cooperation with Goldman or anyone else. However, it is intriguing that Daiwa's biggest shareholder is Sumitomo Bank, which also has a stake in Goldman.

Such family ties are especially important in Japan. Mr Dozen's strategy is not greatly different from those of his counterparts at Nomura, or at Nikko and Yamaichi. In a year in which US securities markets have greatly out-performed Japan, internationalism is a buzz-word in Tokyo.

Nevertheless, there are significant differences in tactics between the Big Four. The further the brokers move from their lookalike businesses on the Tokyo Stock Exchange the more these differences will become apparent.

US Treasuries trade in a narrow range

By **Janet Bush** in New York and **Deborah Hargreaves** in London

US TREASURY bonds continued to trade in a tight range yesterday in light business and were mostly quoted unchanged from Monday's close.

At mid-session, the Treasury's benchmark long bond was quoted unchanged for a yield of 7.87 per cent while isolated short – and medium-dated maturities were quoted ⅛ point higher.

GOVERNMENT BONDS

There was no economic news to inspire the taking of new positions yesterday. The first event which could move the market out of its torpor could be the publication today of the latest Tan Book of regional economic reports published by the US Federal Reserve and used as a guide to monetary policy-making by the Federal Open Market Committee.

The Fed will be watching particularly for further signs of weakness in the manufacturing sector. The next potential trigger for activity is then likely to be Friday's November employment report.

The Fed funds rate stood at 8½ per cent throughout yesterday's morning session. The main focus of market talk continues to be the likelihood of the Fed easing the Fed funds rate target from 8½ per cent to 8¼ per cent.

The calendar of new Treasury bond issues is light for a few days and there is little going on either in the corporate bond or municipal bond markets.

■ UK GILTS shook off a lacklustre start yesterday to stage a mild recovery as the market reaffirmed its faith in Mr John Major, the new Chancellor of the Exchequer, and sterling performed better on the foreign exchanges.

The market remained thin and nervous yesterday, however, as retail investors failed to materialise and overseas investors remained unconvinced of the direction of the pound. Sterling's Bank of England trade-weighted index rose to 86.4 from its previous close of 86.0.

Attention in the gilts market was not focused on the leadership challenge faced by Mrs Margaret Thatcher, the Prime Minister, yesterday. But a favourable outcome of the vote, which was due to be announced after the close of yesterday's gilts market, could push sterling up and provide a fillip for gilts today.

A renewed foreign interest in UK gilts on the back of a stronger pound, could encourage a return by retail investors to the market. But retail investors are currently happy to sit on their cash and could remain there until the beginning of next year.

The Government's benchmark 9 per cent 10/2008 long gilt was up 14 ticks yesterday at 91¾.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/92	103-12	+1/32	12.02	11.90	11.71
	9.750	1/98	93-20	+5/32	10.95	10.83	10.77
	9.000	10/08	91-30	+14/32	9.95	9.88	9.84
US TREASURY *	7.785	11/99	100-13	-1/32	7.86	7.89	7.96
	8.125	8/18	102-25	-1/32	7.88	7.91	7.94
JAPAN No 111	4.800	6/98	94.8796	+0.029	5.48	5.53	5.47
No 2	5.700	3/07	101.8828	-	5.51	8.50	5.32
GERMANY	7.000	9/99	98.1500	-0.100	7.26	7.35	7.18
FRANCE BTAN	8.000	10/94	94.2205	+0.148	9.52	9.67	9.54
OAT	8.125	5/99	94.5200	+0.360	8.99	9.18	9.04
CANADA *	9.250	12/99	97.1250	-0.175	9.71	9.63	9.42
NETHERLANDS	7.250	7/99	98.5700	-0.130	7.76	7.82	7.65
AUSTRALIA	12.000	7/99	94.2567	+0.079	13.08	13.10	13.50

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Barclays backs £135m loan

By **Stephen Fidler**, Euromarkets Correspondent

BARCLAYS BANK has agreed to underwrite the £135m in loans necessary to fund the first phase of an office and shopping development in west London by Bredero Properties.

The loan to Bredero will finance the construction of two office buildings of 110,000 sq ft and 140,000 sq ft, and a 60,000 sq ft retail shopping centre, and the holding of the investment for eight years. The development is at Centre West, Hammersmith.

The facility, now in syndication, is over eight years and split into two parts: a £115m so-called core tranche and a £20m tranche for interest roll-up in the final four years. The interest margin starts at 1¼ per cent, falling to ¾ point depending on progress with letting.

● Manufacturers Hanover has arranged an extendible $80m, 13-month credit facility for Northern Feather International, increased after oversubscription from $50m.

France sells extra bills

THE FRENCH Treasury sold a further FFr3.74bn of bills after Monday's tender to bodies eligible to take up paper at the tender price, Reuters reports.

It sold an extra FFr810m of 13-week bills, FFr367m of two-year bills and a large FFr2.56bn of five-year bills.

At the tender itself, it sold FFr1.50bn of the latter maturity.

UK to advise on Hungarian SE

By **Richard Waters**

A BRITISH delegation will visit Budapest next week to offer advice on the creation of the Eastern bloc's first Western-style stock market.

The Hungarian stock exchange, which currently meets three times a week to trade mainly bonds, will be opened formally in January. It will have few equities to trade initially: Tungsram, the light bulb manufacturer, is the only significant Hungarian privatisation to date, although others are planned.

At a two-day seminar to be held next week, members of the British contingent will offer advice on how to handle privatisations, and the operation and regulation of securities markets.

Among those addressing the seminar will be Mr John Redwood, Minister for Corporate Affairs, along with representatives from the International Stock Exchange, The Securities Association, institutional investors and broker-dealers.

Although the Hungarian exchange already meets, it still has to decide on such fundamental issues as whether companies' business should be confined to banks, as at present, and whether it should establish a market-making function.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Dec 5 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Dec 4 Index No.	Fri Dec 1 Index No.	Thu Nov 30 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (205)	891.25	+1.1	12.68	4.76	9.66	29.58	881.71	880.31	875.51	749.43
2 Building Materials (28)	1185.25	+1.1	14.52	5.20	8.58	36.22	1158.61	1157.29	1145.21	935.48
3 Contracting, Construction (37)	1436.70	+2.1	17.28	5.39	7.59	54.19	1407.28	1399.77	1392.69	1438.58
4 Electricals (13)	2542.91	+2.6	10.85	4.85	11.80	83.50	2522.94	2509.84	2478.64	2306.61
5 Electronics (30)	1880.15	+1.2	9.31	3.49	13.90	51.56	1904.85	1912.75	1925.11	1716.44
6 Mechanical Engineering (53)	457.21	+0.6	12.68	5.42	9.68	15.76	454.44	457.09	455.13	407.19
8 Metals and Metal Forming (6)	462.96	+0.4	25.47	6.47	4.43	22.51	461.97	462.59	459.82	457.90
9 Motors (17)	366.45	+0.6	11.69	4.75	10.66	11.00	364.47	366.28	365.74	265.77
10 Other Industrial Materials (24)	1776.30	+0.4	9.74	4.41	12.88	54.13	1695.96	1670.25	1646.82	1344.12
21 CONSUMER GROUP (185)	1382.14	+0.7	8.64	3.40	14.53	31.74	1293.07	1298.38	1282.44	1016.37
22 Brewers and Distillers (23)	1490.46	+0.4	9.33	3.39	13.65	29.39	1489.59	1497.89	1465.41	1124.78
25 Food Manufacturing (20)	1142.14	+0.7	9.27	3.85	13.32	36.38	1136.17	1136.22	1127.23	918.61
26 Food Retailing (15)	2296.99	+0.8	9.24	3.15	14.31	49.99	2281.23	2323.56	2288.82	1798.64
27 Health and Household (14)	2664.00	+0.9	5.93	1.95	20.87	44.47	2639.99	2632.47	2604.87	1775.70
29 Leisure (30)	1618.86	+0.7	8.09	3.79	15.20	42.82	1557.99	1564.09	1522.29	1357.10
31 Packaging & Paper (14)	537.97	+0.2	12.24	5.37	10.73	18.37	536.77	534.92	535.89	521.86
32 Publishing & Printing (18)	3791.43	+0.3	8.47	4.74	15.26	119.20	3491.29	3497.12	3467.23	3222.67
34 Stores (32)	791.92	+0.4	11.47	4.46	11.27	26.74	788.91	795.40	786.24	679.43
35 Textiles (14)	518.47	+0.2	11.80	5.75	10.94	21.25	517.19	517.86	512.66	449.77
40 OTHER GROUPS (95)	1162.77	+0.6	10.40	4.49	11.65	31.95	1153.86	1157.51	1139.66	882.33
41 Agencies (17)	1564.78	+2.5	6.72	2.32	18.59	27.81	1528.58	1537.30	1518.22	1013.77
42 Chemicals (22)	1214.38	+0.2	12.51	5.36	9.48	47.58	1211.86	1212.37	1200.45	996.43
43 Conglomerates (14)	1679.14	+0.7	10.51	5.14	11.39	39.29	1668.84	1664.64	1646.52	1257.06
45 Transport (13)	2272.19	+0.2	10.40	4.52	12.27	64.65	2267.77	2246.83	2201.96	1858.95
47 Telephone Networks (2)	1238.41	+1.8	11.16	4.58	11.65	22.38	1217.36	1140.85	1116.46	998.16
48 Miscellaneous (22)	1917.98	+0.7	9.15	4.09	12.23	64.78	1905.84	1922.12	1886.94	1345.19
49 INDUSTRIAL GROUP (485)	1169.58	+0.8	10.14	4.09	12.15	32.16	1160.13	1162.98	1148.44	929.52
51 Oil & Gas (15)	2028.98	+1.6	9.33	4.94	13.16	96.48	2283.72	2286.54	2249.31	1783.76
59 500 SHARE INDEX (500)	1261.22	+0.9	10.03	4.23	12.30	37.40	1256.00	1250.49	1241.05	995.20
61 FINANCIAL GROUP (120)	826.40	+1.8	-	5.25	-	27.23	818.50	829.98	811.58	667.48
62 Banks (9)	845.49	+1.8	26.42	5.95	6.44	35.17	845.43	848.47	838.51	667.48
65 Insurance (Life) (7)	1380.56	+1.2	-	4.81	-	47.56	1364.67	1376.88	1372.66	931.17
66 Insurance (Composite) (7)	706.63	+1.3	-	5.36	-	27.76	697.78	709.66	699.36	506.85
67 Insurance (Brokers) (7)	1151.72	+1.2	-	5.46	28.35	47.09	1138.30	1144.76	1131.00	894.63
68 Merchant Banks (11)	465.44	-0.4	-	3.71	-	10.85	467.29	465.93	461.35	320.40
69 Property (49)	1276.01	+0.6	7.41	3.49	17.89	36.21	1197.83	1185.40	1184.36	1266.15
70 Other Financial (30)	324.55	+1.1	12.58	6.67	10.42	16.00	321.11	319.24	317.53	352.22
71 Investment Trusts (69)	1273.76	+0.5	-	2.75	-	24.78	1269.49	1267.86	1255.68	985.48
81 Mining Finance (2)	601.02	+1.1	9.80	3.46	10.51	21.65	595.38	596.45	583.78	[illegible]
91 Overseas Traders (7)	1405.06	+0.8	9.51	5.46	12.31	60.11	1473.76	1465.93	1442.10	1390.45
99 ALL-SHARE INDEX (697)	1166.92	+0.9	-	4.31	-	35.14	1150.51	1152.98	1138.67	917.20

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 4	Dec 1	Nov 30	Nov 29	Nov 28	Year ago
FT-SE 100 SHARE INDEX	2327.5	+24.1	2327.5	2301.2	2303.4	2311.1	2274.8	2258.6	2242.0	1767.4

FIXED INTEREST

PRICE INDICES	Tue Dec 5	Day's change %	Mon Dec 4	xd adj. today	xd adj. 1989 to date
British Government					
1 Up to 5 years	116.33	+0.07	116.25	-	10.90
2 5-15 years	129.19	+0.17	128.97	-	11.60
3 Over 15 years	137.27	+0.30	136.86	-	12.71
4 Irredeemables	154.33	+0.52	153.53	-	13.66
5 All stocks	127.37	+0.15	127.17	-	11.66
Index-Linked					
6 Up to 5 years	140.79	-0.13	140.97	-	2.79
7 Over 5 years	138.47	+0.14	138.27	-	3.21
8 All stocks	138.52	+0.12	138.36	-	3.15
9 Debentures & Loans	105.93	-0.43	106.38	-	10.76
10 Preference	85.25	-0.04	85.28	-	6.14

AVERAGE GROSS REDEMPTION YIELDS		Tue Dec 5	Mon Dec 4	Year ago (approx.)
British Government				
1 Low Coupons	5 years	10.36	10.35	10.32
2	15 years	9.89	9.93	9.48
3	25 years	9.81	9.83	9.05
4 Medium Coupons	5 years	11.37	11.41	10.71
5	15 years	10.29	10.32	9.78
6	25 years	9.92	9.96	9.25
7 High Coupons	5 years	11.51	11.54	10.86
8	15 years	10.50	10.53	9.84
9	25 years	10.07	10.10	9.28
10 Irredeemables		9.90	9.95	8.92
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	3.64	3.58	3.47
12 Inflation rate 5%	Over 5 yrs.	3.59	3.60	3.49
13 Inflation rate 10%	Up to 5yrs.	2.79	2.73	2.30
14 Inflation rate 10%	Over 5 yrs.	3.52	3.52	3.52
15 Debs & Loans	5 years	12.94	12.96	11.57
16	15 years	12.43	12.39	11.12
17	25 years	12.09	12.03	10.86
18 Preference		10.77	10.77	10.39

Opening index 2301.2; 10 am 2304.3; 11 am 2307.6; Noon 2312.8; 1 pm 2315.4; 2 pm 2317.7; 3 pm 2318.9; 3.30 pm 2322.7; 4 pm 2320.8 (b) 4.59pm (b) 9.00am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	75	9	18
Corporations, Dominion and Foreign Bonds	4	9	28
Industrials	369	363	867
Financial and Properties	232	93	333
Oils	30	18	45
Plantations	0	0	9
Mines	16	79	67
Others	71	80	94
Totals	797	651	1,481

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

TRADITIONAL OPTIONS

● First Dealings Dec 4
● Last Dealings Dec 15
● Last Declarations Mar 8
● For settlement Mar 19

For rate indications see end of London Share Service

Calls in ASDA, Astra Hldgs., Hon-orbit, Kelt Energy, Owners Abroad, P & O Warrants, Saatchi, Southwest Res., Tuskar Res. Put in Planning Research.

LONDON TRADED OPTIONS

VOLUMES in the London Traded Options continued to hold at levels well above the lows of last week. The top five stocks enjoyed healthy volumes and there was an unusually broad spread of trade.

In spite of the reasonably high overall levels the FT-SE contracts had a dull day, with 5,819 contracts traded of which 2,497 were calls and 3,322 puts.

The top stock was Dixons which traded 2,601 contracts. The bulk of the business was in calls with 2,078 contracts traded. The busiest series was the the December 110 calls where 520 contracts were traded. There was also substantial buying of March 130 and 140 calls. One analyst said the level of trade might foreshadow a takeover, but another said that a leading broker had gone short in Dixons Euro Sterling Convertibles and was covering itself in traded options.

GEC traded at good volumes, by the close 1,400 contracts had been traded with 1,125 calls and 275 puts.

Among oil issues both BP and British Gas traded well. There was strong call buying in both stocks with 2,510 lots of BP and 1,912 lots of British Gas traded. In BP, 1,005 April 280 calls contracts were traded. One analyst said he believed Warburgs had been highly active in BP contracts. He also thought that buying 1,000 of the April 280 calls at 46, completed a cross-trade for 250 January 330 calls at 6, sold 250 January 300 calls at 22 and sold several hundred January 330 calls at 5½.

Rolls Royce was the third-most-active stock with 2,345 contracts traded, of which just 110 were puts. James Capel bought 190 June 200 calls in Rolls Royce at about 8½ and bought 180 June 160 calls at about 13.

James Capel also completed a rollover in Barclays Bank, buying 250 December 550 calls and selling 250 March 550 calls for a net credit of 18.

Among the other most-actives were Asda, which gave a profits warning yesterday, with 1,398 contracts traded and Land Securities, which went better on the London Stock Exchange following the suspension of British Land, with 1,367 contracts.

Option		CALLS			PUTS		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE INDEX (*2322)

	2100	2150	2200	2250	2300	2350	2400	2450
CALLS [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PUTS [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

December 5 Total Contracts 33,870 Calls 23,665 Puts 10,205
FT-SE Index Calls 2497 Puts 3322
*Underlying security price. † Long dated expiry months

UK COMPANY NEWS

Keeping an acquisitive eye on the defence industry

DESPITE suffering from a heavy cold, Lord Weinstock (right) was in jocular mood when he announced GEC's interim results yesterday. He repeatedly pressed fellow directors to answer questions directly rather than hiding behind a series of platitudes. They declined to be more explicit, which did not appear to annoy him unduly, writes Michael Skapinker.

Lord Weinstock said he was watching the situation at Ferranti International Signal with interest. He said he had had contact with the group in the past few weeks, although it was still unclear what was going to happen to Ferranti. He said he had had no contact with Thomson-CSF, the French defence group which expressed an interest in Ferranti.

He appeared relaxed on the question of whether the changes in Eastern Europe and a reduction in western defence spending might be bad news for GEC.

"In the short term nothing much is going to happen, at least in the businesses we're engaged in," he said. "The Prime Minister is taking a very sensible and robust attitude when she talks about 10 to 15 years before you can talk about political changes."

He conceded, however, that there would be increased pressure for UK defence expenditure to be reduced. "I suspect there will be a reaction in which the Treasury will say 'no' more loudly and more often." But that, he said, was nothing new.

"We can't foresee that defence expenditure will come to an end or fall very abruptly. We will have to see how it goes. Whatever scenario you offer I don't see one which says you don't need defence equipment."

He said he could not yet say how GEC and Siemens would split the cost of their purchase of Plessey. There was no contribution from Plessey in the GEC interim results.

He said that Plessey would make a profit this year. The level of profit, however, would be nothing like that predicted by Plessey when it was fending GEC and Siemens off.

Asked if he was still happy *about having bought Plessey,* Lord Weinstock said "it depends what you mean by happiness. We had no particular expectations. We knew what we were doing. So did Siemens. Nothing has happened to make us more or less happy than we were in the beginning."

Would GEC announce any other joint ventures or acquisitions in the near future? "Have we got any soon, Simon?" he asked his son, Mr Simon Weinstock. "Possibly," said Simon.

What was it? Something in defence, said Lord Weinstock. Electronic systems really, said Simon. Not that big. No further information was forthcoming.

"You're all so young," Weinstock père told the journalists. "You have such high expectations."

Ashley Ashwood

GEC meets forecasts with £357m

By Michael Skapinker

THE GENERAL Electric Company yesterday announced interim pre-tax profits of £357m for the six months to 30 September, an increase of 14 per cent on the previous year and slightly above City expectations.

Turnover was up 19 per cent to £3.65bn, compared with £3.08bn last year. Earnings per share were 8.6p (7.5p). GEC announced a 19 per cent increase in the interim dividend to 2.55p (2.15p).

GEC's results for the first time included its 50 per cent share in GEC Alsthom, the group's power systems and transportation joint venture with Compagnie Générale d'Electricité of France.

The results also reflected the reduction of GEC's stake in its consumer goods businesses, following the sale of a 50 per cent share to General Electric of the US.

An extraordinary £171m credit resulted from the disposal of fixed asset investments to joint ventures. Profit attributable to shareholders was £401m (£208m).

Turnover in GEC's power systems business rose from £685m to £1.2bn as a result of the link with CGE. Power systems profits showed a smaller rise to £55m (£40m), the result, GEC said, of historically lower margins on the French side of the business.

Profits from consumer goods fell to £9m (£29m) on turnover of £162m (£306m). The fall was the result of GEC halving its stake in its consumer goods business, but also reflected the drop in consumer spend ing.

Lord Weinstock said, however, that he did not regard the drop in consumer spending as a good excuse for reduced profits in this area. "When business gets difficult you have to get more efficient," he said, and increased efficiency might mean job losses. He said it would require an improvement in GEC companies' purchasing skills.

Lord Prior, GEC's chairman, added that the reduction in profits from consumer goods was compensated for by an increase in interest income arising from the proceeds of the sale to GE. Net interest from loans, deposits and investments and from joint venture associates was £96m (£56m).

Profits from electronic systems were £80m (£76m) on turnover of £896m (£889m). Profits from telecommunications were static at £20m on turnover of £278m, slightly up on last year's £244m.

Net cash and short term investments at the end of the sixth month period amounted to £1.27bn, compared with £1.24bn last time.

GEC said that on the basis of actuarial advice, no company pension contributions would be made in respect of the current financial year and at least until the next actuarial valuation in 1991. Pre-tax profits for the six months benefited to the tune of £7m. Employees' contributions had been substantially reduced and pensioners' benefits increased.

● Telephone equipment manufacturer GPT, in which GEC has a 60 per cent stake, has reached an agreement with Hayes Microcomputer Products of the US to develop the next generation of electronic business equipment, writes Della Bradshaw.

The equipment will enable business users to send computer data or facsimile messages over the telephone line while they are holding a conversation.

Such services, known as the integrated services digital network (ISDN), are now being introduced by many of the world's telephone operating companies. In the UK, for example, British Telecom already has a trial service in operation and plans to make ISDN available to 80 per cent of businesses by the end of 1990.

The original memorandum of understanding between the two companies was signed in May this year, during the bid for Plessey by GEC and Siemens, it transpired yesterday.

GPT, originally a joint venture between Plessey and GEC, is now owned 40 per cent by the West German company.

The liaison between GPT and Hayes, which specialises in modems for personal computers, is initially for development work. No firm agreement has been reached on the manufacturing and marketing of the equipment.

See Lex

TVS Entertainment seeks new partner for stake in MTM

By Raymond Snoddy

TVS Entertainment, the British commercial television company, is interested in finding a new strategic partner willing to take a stake of up to 49 per cent in MTM, its loss-making US television production subsidiary.

TVS bought the company famous for television programmes such as Lou Grant, Hill Street Blues and St Elsewhere in July 1988 in a deal worth more than £190m but so far its hopes have not been realised. MTM is expected to lose between $16m and $20m in the year to October.

TVS interest in finding a new partner to help fund new MTM productions became clear as Mr Arthur Price former MTM president and chief executive spoke for the first time about why he left the company and why he gave up without compensation rights to 6m TVS shares worth more than £11m at current prices.

Speaking from the small Caribbean island of St Martin where he is on holiday Mr Price said yesterday: "I just wanted to get out of there. I would have signed anything. I wanted to be away from the operation."

The " settlement agreement " Mr Price signed on December 1 involved no payment from TVS for the early ending of a six year contract worth around $800,000 a year.

TVS can also nominate a purchaser for the 6m shares Mr Price received as part of the original purchase price of MTM in July 1988 and pocket virtually all the money.

Mr Price agreed yesterday with the official statement by Mr Gatward that " there had been a number of policy differences between TVS and Arthur Price concerning the operation of MTM."

The former MTM president said yesterday :" I didn't agree with what was going on," although he declined to discuss what he objected to.

After it became clear in September this year that MTM's profits targets were not going to be met Mr Gatward fired the syndication manager and closed several departments including feature films and the press office.

"It's all very sad," said Arthur Price who with his partners, including Mary Tyler Moore, the actress decided, to go for the TVS deal rather than selling out to a Hollywood major to avoid being swallowed up and disappearing.

" I'm not in the disappearing business," Mr Price said at the time.

That still seems to be true.

The final settlement released him from restrictions on competing against his old company.

From January there will be a new Arthur Price television production company in Hollywood making the only sort of programmes he's interested in - " the sort I like to watch myself."

New funds would help Mr Gatward of TVS out of a tricky timing problem. He believes it will be 1991 before all the red ink is gone from the MTM balance sheet- the same year that TVS will have to put forward financial bids to try to retain its UK broadcasting franchise including having to put up a performance bond of around £10m.

Current MTM programmes in various stages of production include a comedy series called City, expected to be shown on CBS next year and Capital News which has been sold to the BBC.

MTM has also announced that it is reviving Graham Kerr The Galloping Gourmet in a more healthy for.

Cooking With Kerr is being offered directly to independent television stations in the US and if there is enough interest by January the go-ahead will be given for 174 shows.

WH Smith makes $30m US disposal

By Rachel Johnson

WH Smith has further withdrawn from operations in the US with the sale of its Wholesale News Division to Jim Pattison Group of Vancouver, Canada, for $30m (£19.2m).

WH Smith has been pursuing a strategy of disposals to concentrate its retailing strengths in the UK and US. This prompted the decision to sell its wholesale division to Jim Pattison, a company with ambitions to distribute news across the whole of the US from its Vancouver base.

WHD is based in Atlanta and Savannah, Georgia, and serves about 3,000 retailers with 5,000 magazine and book titles. Jim Pattison will additionally take on $500,000 of WHD's debt. WHD has net assets of $1.7m *and declared profits before tax* of $1.1m for the year to June.

In September, WH Smith sold its US publishing interests to Penguin USA, a subsidiary of Pearson, the banking, finance and industrial group which owns the Financial Times.

The group owns a chain of 320 hotel and airport shops, based in Atlanta, and a recorded music operation on Philadelphia. "We will continue to expand these businesses over the next few years," he said.

Lovell needs Higgs and Hill 'to cut dependence on house building'

By Ray Bashford

SIR BRIAN HILL, the chairman of Higgs and Hill, yesterday claimed that YJ Lovell was attempting to reduce its reliance on the troubled house building sector by making its hostile £137m takeover offer.

In the defence document released yesterday, Higgs and Hill argues that Lovell has *derived an average of at least* 70 per cent of its pre-tax profits during the past five years from house building.

This level of exposure to house building will make trading conditions increasingly difficult during 1990 as higher interest rates impose tighter trading conditions, the document claims.

Lovell replied that the document was "empty" and criticised the company's directors for omitting a forecast of profits.

Higgs and Hill strongly rejected the offer on November 20 when Lovell announced the two-pronged cash and share bid which at the time valued the company at £138m.

Sir Brian said that the offer undervalued the company and failed to recognise its prospects for the coming decade.

"The quality of Higgs and Hill would be diluted by Lovell and the offer is wholly inadequate. Higgs and Hill has had an outstanding recored during the 1980s and has a coherent strategy for the future," the chairman said.

In contrast to Lovell, Higgs and Hills claims to have "a portfolio of complementary activities in related business areas, comprising construction, property and homes".

Higgs and Hill said that it had outperformed Lovell and the construction industry as a *whole for the past five years in* terms of growth in construction turnover.

It disputes Lovell's suggestion that the company is just "a medium sized contracting business". Higgs and Hill says that it has a reputation in the UK construction industry which Lovell covets and that this has helped it to spread rapidly its international operations.

Lovell argued while announcing the offer that the acquisition of Higgs and Hill would allow for accelerated expansion into Europe while also developing a stronger base from which to compete with expected heightened continental European competition.

Higgs and Hill said that it was capable of independent international expansion, having commenced offshore work in 1947 and expanded across Europe, after developing a *solid base in France, to include* parts of Eastern Europe.

COMPANY NEWS IN BRIEF

ESTATES AND GENERAL Investments has acquired the freehold of Jobs Dairy and neighbouring timber yard site in Sunbury-on-Thames, from Berisford, for £3m. It intends to submit a revised planning application for a 23,000 sq ft office building, with completion scheduled for June 1991. Completed investment value will be about £8m.

EVODE GROUP has sold Beacon Management Services to Synapse Compnter Services for £304,000, being £210,000 cash and £94,000 inter-company debt written off.

GUINNESS MAHON Holdings has sold its 50 per cent holding in Landhurst Leasing to Rugen, a company of which 50 per cent is to be owned by Lloyds Development Capital and 50 per cent by the other shareholders of Landhurst. The consideration for the sale will be satisfied in cash.

HAMPSON GROUP has paid £1.3m cash to acquire Clearway Aluminium, which makes entrances and structures principally for the commercial sector of the construction industry.

HIGHLAND PARTICIPANTS: The recent offer was taken up as to 33.15m shares (91.3 per cent). In addition, acceptances were received in respect of 546,189 shares (1.5 per cent) for which valid cover was not received. The offer, which has been declared unconditional as to acceptances, will remain open until further notice.

HOGG ROBINSON and Gardner Mountain is to acquire the Lloyd's Members Agency business of Bain Clarkson Members Dnderwriting Agency, a subsidiary of Inchcape. Consideration is a maximum £1.08m to be satisfied in cash or by way of a vendor placing.

on completion. Consideration which amounts to ebout £4.74m will be in cash of which £750,000 is payable dependent upon the level of profits of Landhurst for the year to September 30 1989.

HOPKINSONS HOLDINGS *is* acquiring Thermal Refrigeration for a maximum £1.75m cash based on warranted pretax profits of £260,000 for the year ended November 30 1989. Thermal supplies components to a range of manufacturing industries.

INISHTECH- rigbts issue of 2.81m shares taken up in respect of 98.8 per cent.

JEFFERSON SMURFIT's subsidiary Container Corporation has extended its tender offers for its 12¾ per cent Senior subordinated debentures due September 30 1998 and 16¾ per cent subordinated discount debentures due September 30 2006 until 5pm New York City time December 12 1989. As at December 1, a total of $141.14m in aggregate principal amount of senior debentures and $438.19m in aggregate principal amount of discount debentures had been tenders into offers (99.9 per cent and 99.8 per cent respectively).

LEEDS GROUP: the final deferred payment in respect of the acquisition of Eldennew and its sole trading subsidiary, the Walsden Printing company was made on December 1. The final payment was £1.215m, satisfied as to the issue of loan notes and as to $629,000 cash (£401,000). Part of the cash consideration was being raised by the placing of 250,000 newordinary.

McKECHNIE is restructuring its plastics division. The division, which currently comprises eight businesses, will be reorganised into five larger entities, each defined by the market sector in which it trades.

MAXWELL COMMUNICATION has sold its 49 per cent stake in Usborne Publishing and the consideration (unstated) was paid in cash.

NATIONAL TELECOMMUNICATIONS *has sold the stock and subscriber base of its cellu*lar communications business to Securicor Communications for a consideration of £1.21m cash.

NEWMAN STREET Properties has sold two freehold properties in Berners Mews, W for £1.17m. Newman is a joint venture of Ford Sellar Morris Properties and Shaftesbury.

POLYPIPE has conditionally contracted to acquire Attersall Building Products (distributor of kitchen and bathroom taps, *mixers and showers) and* Truflow Brassware (manufacture of showers and mixer valves) which will be combined into a new operating division. Maximum price for Attersall is £208,000 of which initial £41,000 met by the issue of 39,883 Polypipe shares; for Truflow it is £108,000 of which £25,000 initially satisfied by 24,319 shares.

SUTER has bought 250,000 of its own ordinary shares at 156p per share. This brings the cumulative purchases since shareholders first authorised the buy-in to 12.81m shares.

SYNAPSE COMPUTER Services has acquired Beacon Management Services from Evode Group for £304,000, being £210,500 in cash and £94,000 inter-company debt taken on. Beacon, involved in computer support, had a turn*over of £903,476 for the six* months to September 30.

THIRD MILE Investment: Allied Partnership Group is increasing stake in Third Mile from 29.69 to 48.3 per cent, but has obtained dispensation from Panel from making a general offer. Third Mile purchased two properties from APG for £1.4m and satisfied that via the issue of 848,485 shares at 166p.

TUSKAR RESOURCES appointed Hambros Bank as its merchant bank adviser in early November.

UK COMPANY NEWS

Property and investment account for the major share of the group's operating profits

Trafalgar House improves 18% to £270.4m

By Andrew Hill

TRAFALGAR HOUSE, the shipping, property and construction group which owns the QE2 and the Ritz Hotel, increased pre-tax profits by about 18 per cent to £270.4m in 1988-89.

However, chairman Sir Nigel Broackes warned there might be "a small dip" in operating profits at its property and investment arm this year.

Mr Eric Parker, Trafalgar's chief executive, added: "I don't want you to think that property is going to reduce dramatically in importance, but I do think we will see the shipping and hotel and the construction and engineering operations growing at a greater rate."

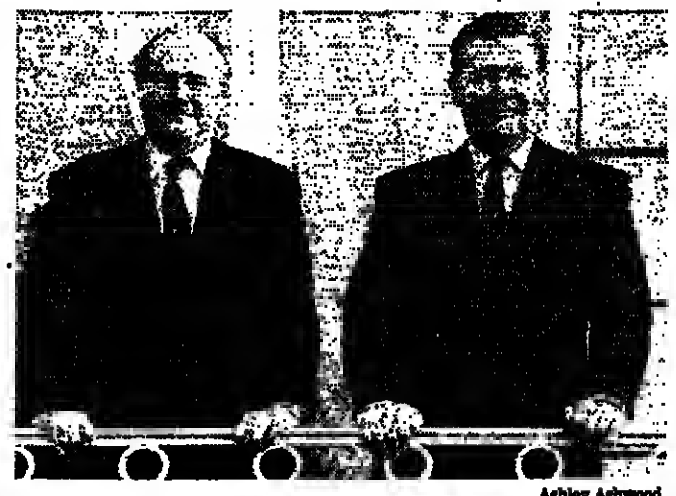
Trafalgar also revealed that in the past two weeks it turned down an offer of £150m for the Ritz, but the company would not name the potential buyer. All Trafalgar's London hotels – which also include the Stafford and, since May, the Dukes – have been revalued, adding £72m to reserves.

Meanwhile, Trafalgar's largest shareholder, Abu Dhabi Investment Authority (ADIA), has increased its stake from 4.9 per cent to 5.06 per cent. ADIA – which manages investments for Abu Dhabi's ruling family, the al Nahyans – told Trafalgar in a letter that it was a long-term investor.

Trafalgar's results for the full year to September 30 compared with £229.1m made in 1987-88. Earnings per share rose from 36.6p to 42.8p and turnover increased to £3.23bn (£2.68bn). The shares rose 5p to 347p.

The group proposed a final dividend of 9.6p, which would make 17.6p for the year, up 10 per cent on the previous full-year dividend of 16p.

Property and investment accounted for the lion's share of 1988-89 operating profits at £170m (£149m), on sales of £746m (£676m). Mr Parker said the contribution from housebuilding had slipped from about 50 per cent of divisional profits to 40 per cent, with 3,400 units completed in the UK against 5,150 in the previous year.



Ashley Ashwood

Eric Parker (left) and Sir Nigel Broakes: captains of industry at the helm announcing the group's results at the Ritz yesterday

This year, the housebuilding subsidiary, Ideal Homes, is budgeting for another 3,400 units, excluding 500 homes for housing associations. Bnt Trafalgar admitted that in the current economic climate, with interest rates still high, it would be a difficult target to hit.

Trafalgar said the balance of its commercial property in the UK between smaller short-term developments and larger schemes would generate "significant profits" in the medium term.

The construction and engineering division poshed up operating profits from £53.5m to £62.5m on turnover of £1.82bn (£1.36bn), but margins were hit by fierce competition and problems within the offshore and structural division.

Trafalgar added that it hoped to sign a sharebolder agreement "in the next month or two" formally establishing the joint venture with BICC, the cable and construction group, and British Rail to build and operate the new high-speed rail link with the Channel tunnel.

Shipping and hotels made £58.2m (£46.5m) during the year on turnover of £665m (£610m), with cruise bookings for Cunard – which celebrates its 150th anniversary next year – higher than ever.

Net borrowings at the year-end were £384m, or 45 per cent of shareholders' funds, slightly higher than last year's gearing figure of 44 per cent.

See Lex

Anglo United surges to £6m despite heavy interest charge

By Ray Bashford

ANGLO UNITED, the fuel distribution group transformed last July through the £478m acquisition of Coalite, pushed pre-tax profits up from £2.5m to £6m during the six months to September 30.

However, the performance reflected benefits of an investment in NSM, the restructured private coal mining company formerly known as Burnet & Hallamshire, rather than the Coalite takeover.

Mr David McErlain, the chairman, yesterday also gave preliminary details of an assets disposal programme which will help the company partially cover borrowings made to finance the purchase of the much bigger Coalite group.

The company expects to announce soon the sales of Coalite's waste disposal, builders' merchants and quarries businesses. These are likely to return over half of the £200m bridging finance take-np to finance the contested takeover. Another two businesses are also up for sale.

As an iodication of the impact the borrowings are having on the company's performance, interest charges surged to £8.5m (£448,000), of which £7.4m was associated with the Coalite takeover.

The reduction of the bridging loan through the disposals will assist greatly in lowering the interest charge. However, tbe company will incur another large bill for the current half.

Mr McErlain said oegotiations about the asset sales made him increasingly confideot of beating the original objective of repaying the bridging loan by Christmas next year.

Anglo realised a profit of £4.6m on the sale of a 4.5 per ceot stake in NSM during the period, reducing its holding to 21.5 per cent.

The beoefits of the NSM investment were also received through a £2.3m share of its profits – £1m higher than in the corresponding six months.

Coalite in fact held back the group result, returning a loss at the operating level before interest charges of £2.7m for the two months it was in Anglo's control.

The chairman said Coalite's result was in line with expectations at the time of the takeover and covered a traditionally weak part of the company's profits calender.

The unusually warm summer had an adverse impact on the coal distribution operations. However, the cold snap currently hitting large parts of Britain was expected to boost the results for the current half.

David McErlain: detailed asset disposal programme

Turnover during the first half advanced to £165.64m (£50.74m). Earnings worked through at 4p (1.4p) and the directors have maintained the interim dividend at 0.2p.

Reed Executive continues to decline with £3.91m

By John Ridding

REED EXECUTIVE, the employment agency, yesterday revealed a continued decline in profits with interim pre-tax results of £3.91m compared with £6m last time.

Yesterday's figure, for the half year to the end of September, was achieved on turnover up 21 per cent at £70.29m. But earnings per share slipped from 7.1p to 4.7p and the dividend is held at 0.6p.

Mr Alec Reed, chairman, said that the results reflected difficulties in the recruitment market which had "a serious and adverse effect."

In addition, the company decided to accelerate the rate at which it writes off its properties. This resulted in an additional charge to the profit and loss account of £347,000.

Mr Reed said that in spite of the current trading difficulties the company remained confident about its long-term future and consequently continued to invest in the expansion of its branch network. He said that the group had added about 30 new sites over the past year.

● COMMENT

Reed continues to be worse affected than its counterparts in the employment agency sector, reflecting its continued expansion in a slowing market, its concentration in the south east of England and the fact that it has a relatively high ratio of permanent staff to temporary staff. In addition, and in common with the sector as a whole, Reed has suffered from skill shortages which have prompted a sharp increase in recruitment costs. Reed's continued expansion will strengthen its position as the market recovers, which underlying trends towards temporary employment should ensure. However, for the current year, the fact that Reed is taking a longer term view – and can afford to because of the chairman's dominant position on the shareholder register – suggests another gloomy profit performance. Analysts are expecting pre-tax figures of about £6.5m for the full year placing shares on an expensive prospective multiple of 13.

FKB jumps 65% to over £4m

By Jane Fuller

FKB GROUP, which claims to be the UK's number one in the sales promotion field, has increased its pre-tax profit by 65 per cent for the six months to September 30.

The acquisitive company made £4.23m, compared with £2.57m last time, on turnover that more than doubled to £48.06m.

But as its more recent acquisitions have been for cash rather than paper, last year's £7m cash pile has turned into borrowings of £8m, totting up first-half interest payments of about £400,000. It says the debt is set to rise to £20m by the end of the year as acquisitions' earn-outs come into play.

Earnings per share rose 19 per cent to 10.1p and the interim dividend stays at 2p.

Mr Brian Francis, joint chief executive, said in the UK the company had gained such new clients as Seagrams, the spirits and wine group, and Smith Kline Beecham in pharmaceuticals, while increasing its business with some established ones including Tesco, the supermarket chain.

Although in the late summer and early autumn some clients had delayed spending decisions, these were now coming through. Mr Francis said a few contracts had been undertaken at margins that were less good than usual.

The company is, however, well insulated against UK difficulties because 58 per cent of its first-half profit came from the US, where it also has much of its borrowings, taking advantage of lower interest rates.

Mr Francis said there was further improvement to come from FKB Direct, a US subsidiary. "It has invested in more people and in printing and mailing facilities, but the client take-up took longer than expected."

In Continental Europe, the company already had a Paris base and was looking for acquisitions in West Germany, Italy, Spain and Belgium.

Its network of sales promotion agencies, which did not exist two years ago, now took in 20 countries, he said.

As part of its effort to move into the Far East, it was having talks with Dentsu, of Japan, about a possible joint venture.

Alphameric losses accelerate to £2.5m

Losses at Alpbameric, accelerated in the first six months of the current year with the pre-tax deficit at September 30 amounting to £2.54m against a profit of £514,000 for the corresponding period and a loss of £1.29m for 1988/89.

There were no exceptional debits this time (£313,000). But extraordinary items amounted to £2.47m (£166,000), attributed to the costs of the closure of three businesses.

The pre-tax loss arose from an operating loss of £0.8m in the continuing businesses,losses of £1.3m in discontinued businesses and interest charges of £0.5m.

Mr Donglas Craig-Wood, chairman, said that the decisions already taken to concentrate on repetitive revenues and to discontinue development projects which do not contribute sufficiently to revenue have already minimised most of the causes of the recent heavy losses.

Turnover for tbe period amounted to £12.34m (£10m) of which £12.14m (£9.02m) related to continuing businesses. Taking in a tax credit of £240,000 (£103,000 charge) there was a loss of 10.91p per share (1.82p earnings). There is no interim dividend, against 1p last time.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Avesco, Birmingham Mint Group, Caffyns, Cape Industries, Cranswick Mill, Douglas (Robert M), Embassy Property, Green King & Sons, Joseph (Leopold), Latham (James), Monks & Crane, Norcross, Northamber, Rowlinson Securities, Saltire Insurance Investment, Salvesen (Christian), Tams (John), Tinsley Robor, Tiphook, UMECO.

Finals- Avon Rubber, Albion, Crystalate, Hardanger Props, Saatchi & Saatchi, TMD Advertising, Wheesoe.

FUTURE DATES

Interims-

F & C Smaller Companies	Dec. 18
Great Universal Stores	Dec. 7
Greycoat	Dec. 7
Halma	Dec. 12
London Merchant Secs	Dec. 14
Ogilesby & Butler	Dec. 8

Finals-

Carroll (PJ)	Dec. 8
Guinness Mahon	Dec. 15
Hoskyns	Dec. 14
Johnson & Firth Brown	Dec. 14
Shoprite Group	Dec. 14
Southern Business Group	Jan. 10

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allied Colloids	int	0.75	Feb 23	0.65	-	2.3
Alphameric	int	nil	-	1	-	2
Anglo United	int	0.2	Mar 31	0.2	-	1.2
Atkins Brothers	int	3.8	Jan 16	3.3	-	11
Bogod	int	0.1	Feb 1	0.1	-	0.32
'A'	int	0.2	Feb1	0.2	-	0.64
Campbell/Armstrg	int	1.65§	Jan 25	1.65	-	4.95
Control Secs	int	0.5	-	0.375	-	1.25
Cronite Group	fin	2.5	-	2.5	4	3.5
Crosby (James)	int	1.25	Apr 9	1	-	3.5
Eldridge Pope	fin	2.35	Feb 3	2*	4.1	3.6*
Ensor Holdings§	int	1.25	Feb 16			
Evans of Leeds	int	2.25	Jan 5	2.15	-	6.15
FKB Group	int	2	Apr 10	2	-	6
GEC	int	2.55	-	2.15	-	7.6
Morris Ashby §	int	1.7	Mar 1	1.7	-	4.1
Northern Foods	int	5.25	Feb 23	4.75	-	11.25
Reed Executive	int	0.6	-	0.6	-	2
Ritz Design	int	1.33	Jan	-	-	2
Tams (John) §	int	1.38	Jan 11	1.2	-	3.6
Trafalgar House	fin	9.6‡	Feb 16	8.6	17.6	16
Tunstall	fin	2.75	Feb 6	2.5	4.5	4
Utd Scientific	fin	2	Apr 6	4.6	2	7.3

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ‡Carries scrip option. ‡Includes special 0.375p interim.

COMPANY NEWS IN BRIEF

ALVA INVESTMENT TRUST: The issue of offers of 4.375m ordinary shares at 300p per share closed at 3pm on December 1. Of the 1.55m ordinary shares offered, valid acceptances were received in respect of a total of 926,917 ordinary shares (59.8 per cent). The balance will be subscribed for by investment clients of De Zoete and Bevan.

ANGLESEY MINING: During the six months ended September 30 £1.46m was expended on mineral properties and £210,424 on fixed assets required in the company's business. The company said it had been encouraged hy the continuing strength of base metal prices and by the recovery of gold, features of which were being bolstered by recent exchange rate developments.

ANSBACHER (HENRY) is selling its 75 per cent interest in Adams and Porter Inc for $3.5m (£2.23m). A and P is a New York-based retail insurance broker.

ASHLEY GROUP has acquired a 71 per cent interest in EB Distributiou, a window blind distributor based in the Netherlands, for Fls 500,000 (£160,000) cash.

ASSOCIATED FARMERS is not proceeding with the rights issue as the resolntion to acquire LOddon Livestock Equipment was defeated at the recent egm.

AUTOMOBILES OF Distinction is buying Country Classics for £150,000 in cash and shares. Sir Anthony Joliffe, the majority shareholder in Country Classics, will inject £625,000 into it in return for preference shares, which will be redeemed if Country achieves certain agreed profits.

BDA HOLDINGS has sold its investment property at 480-500 Larkshall Rd, London, E4, together with an adjoining office development at auction. The sale proceeds of £2.16m will be used to reduce current borrowings.

BET has purchased Southern Services, an Atlanta-based cleaning and building maintenance company.

BROMPTON HOLDINGS has terminated discussions with a potential bidder for the company. It will make certain rationalisations with a view to focussing activities on core businesses.

CARGO CONTROL is expanding its transport activities with the acquisition of Packaging Industries for a maximum £305,000, to be met by the issue of 250,000 shares and £55,000 cash. Packaging makes wooden containers and pallets for the cargo market; it incurred a loss of £150,000 in the year ended April 30 1989 on sales of £3.77m.

CLOGAU has changed its name to Ferromet Group to relect the change of the core activity of the group.

DARBY GROUP has purchased the stock, fixed assets and the leasehold property of Glass Toughening (UK) for a consideration of £550,000 payable in cash. This pnrchase was agreed within three days of Glass Toughening going into receivership.

UK COMPANY NEWS

Pork prices, rationalisation and chilled food scares blamed for flat performance

Northern Foods little changed at £40m

By Nikki Tait

NORTHERN FOODS, the Hull-based food manufacturer, experienced a static first half, with pre-tax profits up just £1m to £40.3m.

And sales in the period, to September 30, were also virtually unchanged at £535.3m (£511.2m). Earnings per share, after a 29 (30) per cent tax charge, nudged ahead to 12.89p, from 12.45p.

The flat performance was blamed on the combination of sharply higher pork prices, the various scares over chilled foods – *estimated to have cost* around £2m – plus the short term effects of extensive restructuring and investment in three of the group's four divisions.

Analysts, well-appraised of the difficulties, had expected little progress in the half year and the shares eased just 3p to 299p yesterday.

With regard to the current half, Northern said it was looking forward to "continued progress". It warned that the high interest rate climate appeared to be having some effect on demand for higher value-added products, but that basic food volumee – sausages, milk and so on – appeared resilient. It described Christmas demand as "reasonable".

And, in what it called an indication of confidence in the overall way forward, it raising the interim dividend by 10.5 per cent to 5.25p.

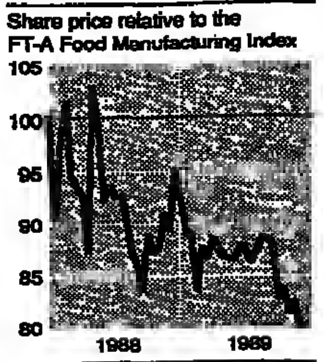
The only division to show a significant improvement was the dairy business. Here, sales rose by just under four per cent to £229m, but profits improved from £18.7m to £20.7m. Northern attribnted the gain to benefits from past investment, a significant improvement at the Ashby dairy, and strong demand for bulk products.

On the convenience foods side, rationalisation and food scares left profits unchanged at £5.7m on static sales. The meat division saw profits edge down from £9.6m to £9.3m, on sales of £127.7m (£118.1m) – again the effect of rationalisation, with the Witney factory now closed, bnt conpled with the pork price impact. Grocery intereste turned in £5.5m (£5.9m) on sales of £76.5m (£70.9m).

Interest charges took £900,000 (£400,000). Net borrowings at September 30 rose from £32.1m to £49.5m, but by the year-end the group expected a return to £20m-£25m. Capital expenditure in the first half was £38m, with £74.5m bndgeted for the full year.

Northern Foods

Share price relative to the FT-A Food Manufacturing Index



● COMMENT

Neither the bottom-line figure nor the mix of profits provoked much surprise yesterday. However, news of delays to the extension of the Kirkham biscuit factory provoked some modest reining back in the more optimistic forecasts. Estimates for the full-year now seem to range around £90m-£91m, putting the shares on a prospective p/e of 10 times. Whether this discount to the sector is justified depends on whether one believes that the outlook for Northern is undergoing a fundamental shift. The bull case euggests that the hefty capital investment programme is ending and disruption should ease; that "special factors", such as pork prices, should cease to impact next year; and that higher food safety standard will help the likes of Northern at the expense of less solid competitors. On this last score, enthnsiasts note already the rising *importance of M&S, Sainsbury* and Tesco as Northern customers. The less optimistic view is that "jam tomorrow" has been forecast and promised before at Northern Foods, and that investors may be wary until there are signs of it actually being delivered. On balance, analysts seem inclined to give Northern the benefit of the doubt - but it is on balance only.

High finance charges take toll on Eldridge

HIGH FINANCE charges led to Eldridge Pope, the West Country *brewer, showing a 12.5 per* cent drop in pre-tax profits in the year ended September 30 1989.

Turnover rose 15.5 per cent to £40.7m (£35.22m) and operating profit 20.5 per cent to £4.56m (£3.78m). But substantial borrowings for the Highcliff Hotel expansion resulted in finance costs of £1.57m (£246,000) and left the pre-tax profit at £3.06m (£3.5m).

Mr Christopher Pope, chairman, said the new EP Best Bitter rapidly became *the* company's top selling ale brand. Labatt and Faust Lagers contınued to sell strongly, and sales of the company's own brewed lager roee in *the free trade by 20 per* cent.

Heavy competitive discounting was a feature of the year and the downturn in consumer spending was felt in the last quarter, Mr Pope said.

Profit was after exceptional charges of £62,000 (£155,000); bnt property profits of £2.67m (£1.36m) were taken below the line and the available surplus for the year moved up to £5m (£3.83m).

Earnings slipped to 11.3p (11.9p). Reflecting confidence in the future, however, the dividend is lifted from 3.6p to 4.1p, with a final of 2.35p.

CU sets up green advice service

By Eric Short, Pensions Correspondent

COMMERCIAL Union Asset Management, the fund management arm of Commercial *Union, the composite insur*ance group, has opened up new dimensions in green investment with the launch of its Commercial Union Environmental Pension Service.

Hence this new service is aimed specifically at pension schemes – administrators, trustees and investment advisers – and for the time being at leats will not be available to the retail investment market.

The service has three main initiatives, inclnding the *launch of a green investment* fund, the setting up of a CU Environmental Screening Service and offering an individual specialist account service to UK and international corporate clients on an individual segre*gated fund basis for environ*ment investment.

The fund, the Commercial Union Environmental Exempt Pension Fund, which will only be available to approved pension funds, will invest in companies which are directly involved in providing products and services that improve the environment, snch as water treatment, recycling, emission control and waste collection and disposal.

Investment will be on a *world wide basis, with at least* 50 per cent invested overseas.

CU Asset Management is marketing this fund as one of the satellite funds adjoining the main core fund in a pension scheme portfolio, not as *the main part of the fund.*

The screening service, which is considered essential to operate an environmental fund, will use CU Asset Management'e investment research department in the UK, backed by researchers and investment managers in North America, Europe and Japan.

CU is offering this screening service to trustees for use on their own individual pension schemes – thereby providing a service which will enable trust*ees to meet the growing pres*sure from schemes members for their funds to adopt positive measures to be green.

Production problems hit Premier Oilfields

By Steven Butler

NET PROFITS at Premier Consolidated Oilfields, the mid-sized independent oil company, fell by £1.3m to £6.83m in the half year to the end of September, as a result of oil production problems in the North Sea.

However, Mr Roland Shaw, chairman, said he expected performance to improve in the full year and he announced an ambitious drilling programme for 1990 that included up to 38 wells.

Premier's shares have recently aroused interest because of a drilling programme in the Gulf of Thailand, where it made a discovery late last year, and in Papua New Guinea. The drilling in Thailand has been delayed until early January because of storm damage to a drilling rig en route from Singapore.

Premier plans four to six wells in Thailand, the first of which will be on an undrilled structure, while others will be aimed at appraising its earlier discovery. Other drilling in mind includes two wildcats in Papua New Guinea in January, and two gas prospects in Pakistan. Eight offshore UK wells are planned as well as development drilling at the Wytch Farm oilfield in Dorset, in Trinidad and Italy.

Production at Wytch Farm is scheduled to reach 60,000 barrels a day in April, 7,500 barrels of which are for Premier.

Turnover fell from £11.51m to £8.22m, reflecting mainly the shutdown of the North Sea Thistle field following the accident at Cormorant Alpha platform to which it is linked.

The results were boosted by an increase of interest income at £1.3m and an extraordinary gain of £4.84m on sale of shares in Ultramar. Extraordinary items in the same period of last year came to £5.13m.

Excluding extraordinary items, after tax profits fell from £3.06m to 2.05m, while earnings per share dropped from 0.72p to 0.48p.

Major review of USH under way as losses total £3.4m

By Jane Fuller

UNITED Scientific Holdings, the defence equipment maker which did not so much escape the clutches of Meggitt as get dropped by it, has reported a pre-tax loss of £3.4m for the year to September 30.

During the takeover battle, Meggitt, the specialist engineering group, first warned that it might pull out after USH announced that the losses and provisions at its Avimo electro-optical plant in Taunton would amount to £17m, twice what had been expected.

Meggitt finally dropped its £104m offer two weeks ago, despite having acceptances for 53 per cent of the equity. Its partial cash alternative valued each USH share at 144p. Yesterday the price closed at 75p, having gained 2p after an announcement that was no worse than expected.

The full-year figures ink in where the £17m has gone. As an exceptional item, a total of nearly £8m is listed as actual and anticipated losses on Avimo's two fixed-price Ministry of Defence contracts for electronic night sights. A further loss of £2.5m is shown for reorganisation.

Mr Nick Prest, deputy chief executive, said another £6.6m of Avimo losses hit the operating profit, bringing it down to £3.54m.

The total exceptional loss of just under £5m (Avimo losses were partially offset by a £5.5m net profit from a site sale) and interest charges of nearly £2m led to the £3.4m pre-tax loss, compared with last year's £10.12m profit. Turnover increased by more than £8m to £128.89m.

Leaving aside Avimo Taunton, the rest of the group made a £10m operating profit. Mr Prest said the bulk of this came in roughly equal thirds from Alvis armoured vehicles, Avimo Singapore and Optic Electronic Corporation in Dallas.

During the takeover battle, the news from OEC was not so good. First its £42m sale to Imo Industries was blocked by the Federal Trade Commission on competition grounds. Then it was discovered that OEC's directors had – without the parent's knowledge – voted themselves "golden parachutes" worth up to £1.6m if USH changed hands.

Mr Prest said a major review was under way of the business, which was worth much more than its market capitalisation. Other than saying that OEC would probably still be for sale, he would not comment on possible disposals.

One of the outcomes would be to reduce the 17.2 per cent gearing which had sprung up in the past year.

Other unpalatable figures included two extraordinary bills: £1.75m for fending off Meggitt and £1.55m for legal costs linked with the blocked OEC sale.

The loss per share was 8.9p compared with earnings of 9.4p last time.

A dividend reappears at 2p, compared with last year's total of 7.3p.

● COMMENT

The company faces a long hard haul to recover credibility with all those shareholders who had decided to sell. That it is trying to do this against a gloomy outlook for defence spending is the least of its worries. Although most of the tears have been shed over Avimo Taunton, it cannot return to profitability before 1991. In other parts the outlook is better, but again in the longer term. Alvis will deliver more tanks next year, but profitability will be limited until its factory move next December. In Singapore, activity is not expected to move up a gear until 1991, although a civil optics venture looks well for a much-needed dilution of the military custom. Warburgs, the house broker, is forecasting a current year pre-tax profit of £7.5m, giving a prospective multiple of about 10. The shares only look cheap compared with the break-up value of the company.

Tams' rise limited by interest payments

John Tams Group, USM-quoted maker of mugs and tableware, reported taxable profits higher at £873,000, against £845,000, in the six months to the end of September.

Mr Gerald Tams, chairman, said that with additional capacity and buoyant trading a year of continued progress was seen.

Trading profit was £1.12m (£776,000) bnt the interest charge was £248,000, compared with a credit last time of £69,000.

Mr Tams said that interest charges on the acquisition of AT Finney and the completion of the capital spending programme had risen unexpectedly. The repayment of borrowings from cash flow was a priority.

Tnrnover was £7.73m (£5.05m). Earnings per share were 2.88p (2.85p) and the interim dividend is raised to 1.38p (1.2p).

Shopfitters' 15% rise in first half

With growth in the financial and commercial sectors offsetting a contraction in retailing, Campbell & Armstrong increased its pre-tax profit by 15 per cent in the half year ended September 30 1989.

This USM-quoted shopfitting and building services group turned in £1.6m (£1.41m) on turnover of £37.9m (£23.8m). Earnings fell to 7.4p (8.8p) on higher capital, and the interim dividend is again 1.65p.

At the end of September the order book stood at £30m, against £19m. The group had remained busy throughout the opening two months of the second half.

Lancaster closure

Lancaster is closing Central Park, its used car sales centre in Altrincham. Central Park was set up in association with alfords to sell used cars from stores located in out of town shopping areas.

Development expenditure checks Evans of Leeds

EVANS OF LEEDS, the property investor and developer, reported increased profits for the six months to September 30 with a rise from £3.03m to £3.22m at the pre-tax level.

This represented an increase of some 6.4 per cent compared with the 13 per cent advance shown for the whole of last year.

But the directors said that they had every confidence in the growth and future profitability of the group. The uplift was shown, in spite of the increased cost of financing the substantial development programme.

Total revenue for the first six months increased from £5.92m to £6.67m; after tax of £1.13m (£1.06m), earnings per 25p ordinary increased from 5.99p to 6.38p. The interim dividend is raised to 2.25p (2.15p); last year's total payment was 6.15p.

UK COMPANY NEWS

Elswick to pay initial £7.5m for label maker

ELSWICK, whose interests range from specialised printing and packaging to professional grass cutting and agricultural machinery and the manufacture of bicycles, has agreed to acquire Blue Ribbon Label for an initial consideration of £7.5m-£4m in cash and the remainder in the form of loan notes payable between 1991 and 2015.

A further payment may be due dependent on Blue Ribbon's profit achievement in the year to July 31 1990.

The £4m cash payment is to be met from the proceeds of an issue of 56.96m new ordinary shares which have been conditionally placed by Birmingham brokers, Albert E Sharp, with institutional shareholders with a claw-back for existing shareholders.

Qualifying shareholders are being offered 7 new ordinary for every 18 held at 12p per share and 7 new ordinary at 12p each for every one existing preference share held.

Blue Ribbon is a market leader in the manufacture and supply of labels in the UK garment industry. Profit before tax has risen from £283,000 in 1985 to £1.06m in 1989; at July 31 its net assets amounted to £1.45m.

The acquisition follows other purchases by Elswick in self-adhesive labels over the past couple of years and Mr Bill Cross, chairman, said the group aims to become a significant supplier of products and systems for the growing market in specialised print and packaging.

In a letter to shareholders Mr Cross said that Elswick expected to make satisfactory progress during the second half of the current financial year.

In the October interim statement, the company reported pre-tax profits down from £923,000 to £647,000 after an increase from £6,000 to £579,000 in interest payable.

The balance of the current placing will reduce Elswick's borrowings and leave it well placed to finance further acquisitions, said to be currently under investigation.

Simon Canadian buy

Simon Engineering is acquiring Dick Engineering of Toronto, Canada, for an initial C$1.2m cash, plus further profit-related payments.

Dick is a consultancy providing project management and design engineering. In year ended June 30 1989 trading profit was $201,000.

Shares rally as a buyer is found for lossmaking security arm

Tunstall falls sharply to £3.11m

By John Ridding

SUBSTANTIAL losses at its security products distribution arm prompted a sharp fall in profits at Tunstall, the Yorkshire-based security equipment company, from £4.97m to £3.11m for the year to the end of September.

The markets had been forewarned of the problems at its Ademco subsidiary, and shares which have fallen from 300p since April, gained 10p yesterday to close at 190p.

Tunstall also announced yesterday that it is selling Ademco to Gardiner Group for £2.2m.

Group turnover declined from £52.06m to £39.98m and earnings per share fell from 21.5p to 12.6p. However, the company expressed confidence in the future and has raised the final dividend from 2.5p to 2.75p giving a total of 4.5p (4p).

"Overall we have suffered a very disappointing year" said Mr Michael Dawson, Tunstall's chairman.

He added that the company had been forced to write off about £1.6m against non-recurring stock obsolescence and bad debts.

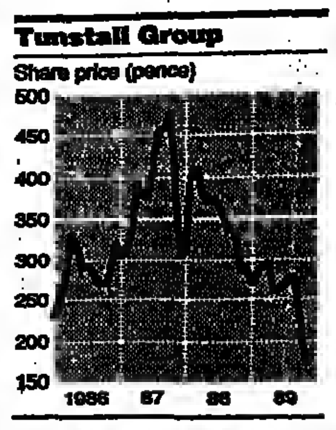
The group also suffered the continuing impact of last year's £6.5m write off against its investment in Sound Diffusion, the electrical leasing company.

Its expenditure on its stake in the company raised interest payments from £530,000 to £1.19m.

Tunstall said that it is undertaking legal proceedings against Sound Diffusion's auditors with the aim of recovering the cost of its investment made on the basis of Sound Diffusion's 1987 audited accounts and rights issue document.

Mr Dawson said that Tunstall Telecom, the group's largest division, which makes emergency and specialist communications equipment, had produced "a most satisfactory result".

He added that early signs indicated another satisfactory year in the home market but that substantial investment was required to address its overseas opportunities.



COMMENT

Tunstall's record of diversification leaves much to be desired. Last year it was Sound Diffusion which provided more than £6m of bad news and the failure of Ademco, which was only acquired in 1987, has provided equal gloom in 1989. It is therefore something of a relief that the group is now focusing on its core businesses, and in particular its emergency communications for elderly people. But even here there are reasons for caution. The private market, which represents the bulk of elderly people, has proved harder to break into than the public sector, and geographical expansion into Europe offers plenty of obstacles. More immediately, Tunstall is likely to be constrained by the problems facing private sheltered housebuilders. The balance sheet has also taken a beating and gearing remains at about 100 per cent. The core business remains solid, and the prospective multiple of 7.5 on pre-tax forecasts of £6.2m is cheap. But while elimination of negatives will bring short term recovery, the source of longer term expansion remains elusive.

Windsor launches trust to specialise in convertibles

By Nikki Tait

CHANGING THE pattern of new investment trust launches away from "emerging markets" and "European" funds, Windsor Investment Management - part of the Windsor Life group - is bringing a trust specialising in UK and US convertible shares to the stock market.

The new fund will be called the London and New York Convertible Trust, and will have around half its assets in UK-quoted convertible shares (including Euro-sterling convertibles), and half in US convertibles.

The managers plan to raise £15m via a placing of 15m shares at 100p each, being handled by stockbrokers Kitcat & Aitken. Impact day is Thursday, December 14.

The new trust, which will have a seven-year life, is not the first investment trust to specialise in convertibles, but does claim to be the first to combine holdings in both US and UK convertibles.

The unusual feature is that it plans to gear up, via the taking on of £15m of fixed-rate, dollar denominated bank borrowings. The loan will be provided by Bank of Scotland, with the interest rate currently estimated at 9.75 per cent, but with the managers saying they hope that this can be nudged down.

This structure should have tax benefits. The US convertibles pay income gross, and the fund managers expect that the normal corporation tax liability will be eliminated by the offset of interest on the borrowings.

Accordingly, the anticipated gross yield is put at 8.5 per cent.

The UK portfolio will be managed by Windsor Investment Management, which currently handles around £106m of funds under management - including the Windsor Convertible and Equity unit trust. In the US, the managers are MacKay-Shields Financial Corporation, part of the New York Life Insurance Company, which in turn recently acquired Windsor Group. MacKay has some $6.3bn under management, including $600m in convertible portfolios.

Norfolk House purchase

Norfolk House has acquired Truckers. The purchase is the first stage in the group's long-term strategy to develop a new network of commercial vehicle refuelling and restaurant facilities with a strong brand image.

The aggregate consideration is £1.3m. This amount is to be satisfied by the issue to the vendor on completion of 206,383 new Norfolk ordinary shares.

Ritz Design up 14% but margins tight

Profits of the Ritz Design Group rose 14 per cent on sales some 30 per cent up in the half year ended September 30 1989.

Margins generally were still tight as the high street stores felt the effect of high interest rates, said Mr Richard Clemons, the chairman. But he believed the close association with Marks and Spencer, the group's principal customer, would prove a strength in this difficult period.

The group, which makes blouses, lingerie and swimwear, saw its turnover increase to £14.2m (£10.94m) and profit to £743,000 (£650,000), after interest charges of £264,000 (£86,000).

Fantasie Textiles, the underwear maker acquired in July, was undergoing changes which should enable it to make a significant contribution to profits in future.

The group had started the second half well.

Earnings were 5.4p (5p) and interim dividends are initiated with a payment of 1.38p, which should approximate to one-third the projected total.

NEWS DIGEST

J Crosby up sharply to £2.25m

JAMES CROSBY, the north-west based housebuilding group, increased its mid-term pre-tax profit by 74 per cent, and said that was very satisfactory especially as there had recently been signs of a slowing down in demand.

In the period, to September 30, the profit came to £2.25m (£1.29m) and was achieved on turnover 29 per cent ahead at £8.64m (£6.71m). Interest charges rose to £498,000 (£258,000).

Mr Michael Burgess, chairman, said present orders stood at a very healthy level, although prospective purchasers were having more difficulty selling their existing properties.

There were signs that the situation was not common to all parts of the operating region, but if there was any further deterioration trading conditions could become more difficult.

Earnings in the period rose to 13.4p (7.7p) and the interim dividend is 1.25p (1p).

Havelock Europa in Finnish link

Havelock Europa, the store design and shopfitting group, has established a marketing relationship with GW Solhberg, a Finnish shopfitter.

The two companies will work together on a product exchange basis, with a view to increasing their shares of the interior fitting market in the retail sector. Each company will market the other's products to their established customer base.

Havelock specialises mainly in timber-based products while the Finnish group concentrates on metal shelving systems such as those used in DIY stores and food retailing chains.

The arrangement gives Havelock the potential to service the food retailing departments or DIY subsidiaries of some of its existing customers. Initially the arrangement will concentrate on expansion within the UK, but the possibility of extending their co-operation into mainland Europe is also envisaged.

Henry Barrett £3m purchase

Henry Barrett Group, the steel and industrial products company, has bought Yarmouth Steel for a maximum of £3.2m.

Of the total, £2.85m is payable on completion, as £2m in cash and £850,000 through the issue of 347,000 retained shares in Barrett to the vendors. A further cash sum of £350,000 is payable in August next year.

The vendors have warranted that Yarmouth's pre-tax profits will be greater than £600,000 in the year to November 30.

Yarmouth is a steel stockholder based in Great Yarmouth and serving Norfolk and Suffolk. Net assets were valued at £870,000 in November 1988.

The acquisition is the twelfth that Barrett has made since its flotation in May 1987.

Courtyard Leisure for Third Market

Courtyard Leisure, a City-based wine bar and restaurant operator, is joining the Third Market through an open offer that values it at £2.19m.

The company, which operates under the names "Punters" and "Wynkyn de Worde" is negotiating the purchase of an established group of City wine bars and restaurants.

Brown Shipley Stockbroking is placing 4.06m new shares at 27p each to raise about £962,000 for the company. Dealings are expected to start on December 6.

In the year to March 31, profits increased from £44,684 to £121,283, and earnings per share rose from 1.1p to 3p. Trading during the current year has been affected by the British Rail and London Underground strikes but otherwise has been buoyant, the company said.

Hadleigh buying trailer manufacturer

Hadleigh Industries, the automotive and engineering group which joined the USM in June, is buying Lynton, manufacturer of specialised lightweight trailers, for £3.58m.

Lynton, which is based in Manchester, is principally involved in the manufacture of trailers for mobile exhibitions and medical uses. Its customers include British Telecom, ICI and the Automobile Association.

Lynton is warranting pre-tax profits of not less than £700,000 for the year to the end of March 1990 and on completion of the acquisition, Mr Tony Burch, managing director, will join Hadleigh's board.

Mr Tony Cookson, Hadleigh's chairman, said that the acquisition will complement the product range and services currently offered by the group's automotive division.

The financing is being satisfied by the issue of 1.74m new Hadleigh shares and £350,000 in cash.

AAH expands pharmacies side

AAH Holdings, the distribution and services group, is adding six more retail and wholesale pharmacies to its chain of outlets for a total consideration of about £2.23m.

The company said that the five retail pharmacies will be added to its Vantage franchised pharmacy programme and the wholesale business will strengthen the group's existing pharmaceuticals distribution activities in the north west of England.

About £1.87m of the total consideration is being satisfied by the issue of new ordinary shares, the majority of which were placed with institutions. The balance has been satisfied by a cash payment.

Gaynor tumbles to £123,000

Gaynor Group, the USM-quoted manufacturer of plastic packaging products, has announced a sharp fall in pre-tax profits for the year to the end of August, from £681,000 to £123,000.

The group was "obviously very disappointed" with the results, and said high UK interest rates and the slowdown in retail spending had affected its core carrier bag manufacturing business. Turnover increased from £7.41m to £8.28m.

Earnings per share plunged from 8.6p to 1.5p. There is no final dividend, which leaves the 1.2p interim as the single payment; total for the previous year was 3p.

Mr Brian Scowcroft, chairman, said "The board has taken corrective action in all areas and a solid foundation is being created."

P&P makes £4.75m Belgian purchases

P&P, the microcomputer service company, is to buy two Belgian companies in a deal worth up to £4.75m.

The companies are Zaventem Electronic Development and Distribution, a distributor of Hewlett Packard personal computers, and Microcomputer Business Systems, which sells and supports personal computer hardware and software. Both were owned by Mr Eion O'Cuilleanain, Mr Merton Hale and Mr Michel De Vooght who will remain in full-time executive positions.

First instalment of the total payment will be £2.2m. Two further payments will be made in March 1991 — an unconditional £1.1m, and £1.5m dependent on the companies achieving the vendors' projection of BFr32m (£540,000) profits in the year to November 1990.

P&P has made a placing of 2.8m shares at £1.85. Of those 1.2m were to pay the initial instalment, the balance to raise £3.1m to provide the Belgian companies with working capital.

Microcomputer made a turnover of BFr371m in 1988, with pre-tax profits of BFr14.4m. Zaventem's turnover was BFr274m in the 18 months to March this year, and profits came to BFr1.7m.

3i backing for charities specialist

A one-time leading stockbroker, Mr David Grenier, has set up a new investment management company with backing from 3i, the venture capital group, and the Dutch-owned merchant bank Mees & Hope.

Independent Investment Management is a specialist company which will focus on looking after portfolios for charities. It starts with portfolios totalling £35m.

Mr Grenier was once senior partner of the City broking firm Scott Goff Layton, before its absorption into Smith New Court. He hopes to expand IIM eventually to cater for other types of client, including small pension funds and private investors.

$75m Malaysian fund to join market

Continuing the current flood of specialist fund launches, a $75m Malaysian Emerging Companies Fund is coming to the London stock market next week.

The new fund, a Jersey-based investment company, is coming from the John Govett stable — which earlier this autumn launched a $30m Singapore SESDAQ fund. The placing of shares with warrants attached - in the usual proportions of one warrant for every five shares - is due to be completed on Wednesday. Shares in the new fund, being sold at $10.50, are expected to start trading on Thursday, December 14.

The fund will specialise in smaller listed companies in Malaysia - in general, those capitalised at under M$300m. At least 50 per cent of the sums invested will go into companies worth less than M$175m. Some money may go into unlisted securities, where a listing is in prospect, but the unquoted portfolio will not generally exceed 25 per cent of total assets.

UK COMPANY NEWS

Possible brewing hive-off by Control Securities

By Vanessa Houlder

MR NAZMU VIRANI, chairman of Control Securities, the property and leisure group, is considering spinning off the brewing and pub interests into a separate quoted company.

Control also revealed yesterday a 74 per cent rise in interim pre-tax profits from £8.5m to £14.8m.

A price tag of more than £200m might be attached to the leisure interests, assuming they attracted a multiple in line with other leisure groups, said Mr Virani. "It really would enhance the value for shareholders," he said.

A de-merger would tackle what Control considers to be the low valuation ascribed to the shares. Over the past year they have fallen by 10 per cent to 44¾p, which compares with a net asset value of 82p in the March accounts.

Control has built up its leisure portfolio over the past two years by buying 23 hotels in the UK and Spain, 550 pubs and the Bellhaven Brewery. He claims its value has been substantially enhanced as a result of pub refurbishments and the benefits of selling Bellhaven beer to an expanded chain of pubs.

The brewery has increased its output from 20,000 barrels to 50,000 barrels since it came into Control's ownership at the start of the year.

In the six months to September 30 the leisure division tripled its profits to £4.69m (£1.55m), the property division more than doubled profits to £18.68m (£8.54m). Overall turnover increased by 31 per cent to £73.6m (£56.2m).

In the half year net rental income was about £10.5m. Mr Virani said that early rent reviews would ensure continued growth.

Mr Virani said that "current high interest rates inevitably bring a degree of uncertainty into predicting market conditions that lie ahead. However an encouraging start to the second half of the financial year has already been made."

After buying back 40m shares at 58p since its annual general meeting the company plans to ask permission to buy back a further 38m shares representing 10 per cent of the shares in issue.

An interim dividend of 0.5p (0.375p) was declared.

● COMMENT

The market's response to Control's meteoric rise since 1986 has been a rather grudging one. Despite a sharp rise in asset value and a large improvement in the quality of earnings Control's shares have gone nowhere in the past couple of years. Assuming it makes profits of £28m this year, its shares, up ¾p to 44¾p are on a p/e multiple of 7. Yet Control's formula is a good one. The pubs provide strong cash flow, good asset backing and are an important outlet for Bellhaven beer. Together with the likely benefits of the Monopolies report which whould enhance Bellhaven's standing as a guest beer the prospects of the brewery have been greatly enhanced over the past year. And although Control has a large exposure to the property sector, its portfolio is biased towards less vulnerable areas of the economy. Accordingly, Control's shares should offer attractions to investors — even before taking into account the possibilities of a demerger.

NEWS DIGEST

Cronite expands by 23%

ALTHOUGH HELD back by higher interest charges, Cronite Group increased pre-tax profit by 23 per cent in the year ended September 30 1989.

And, barring a major downturn, the group was expecting to give a further good account of itself in the coming year, said Mr J Butler, chairman.

There was some uncertainty as to the immediate future for the UK economy, but there was a continuing strong demand for most of the group's products.

Turnover in the year increased 43 per cent to £56m (£39.3m), driven by higher metal prices and rises in volumes. Higher costs and interest charges, however, slowed the pre-tax profit growth to £2.3m (£1.87m). Earnings came to 11.2p (10.7p) and a final dividend of 2.5p raises the total to 4p (3.5p).

Mr Butler said most of the larger companies in the group — especially alloys, steels and cronite — showed substantial improvements in profitability.

Expansion costs pull back Morris Ashby

Morris Ashby, USM-quoted maker of high pressure diecastings, made a "somewhat disappointing" profit of £543,000 in the half year ended September 30 1989, compared with £659,000.

Sales improved a modest 2.7 per cent to £5.12m (£4.99m). But the order book had now strengthened and prospects for the second half looked good, said Mr Norman Gardiner, chairman.

A number of factors were involved in the first half performance, not the least of which were increased costs associated with expansion of premises.

Earnings rose to 4.69p (4.33p) after a reduced tax charge, and the interim dividend is again 1.7p.

Ensor hit by difficult trading conditions

Difficult trading conditions with high interest rates have left Ensor Holdings, a vehicle distribution and building products group which joined the USM in June, with pre-tax profits down from £971,000 to £877,000 in the six months to September 30.

Turnover for the period was up from £27.8m to £29.56m but the trading profit was marginally lower at £1.07m (£1.08m). Net interest payable rose sharply to £197,000 (£119,000).

Basic earnings per share were down from 6.7p to 5.9p after tax of £316,000 (£359,000). A maiden interim of 1.25p is being paid.

Water acquisition for Sutcliffe Speakman

By Rachel Johnson

SUTCLIFFE Speakman, the environmental engineering company specialising in products for water purification, yesterday announced it had agreed to buy part of Walker Greenbank, the former mini-conglomerate, for £3.49m.

With the acquisition, Sutcliffe Speakman will add to its base in activated carbons and solvent recovery. It has made a series of acquisitions designed to concentrate its activities in the fields of water treatment and filtration. Walker Greenbank has been disposing of its subsidiaries to slim down its operations and concentrate on its large contract wallcoverings business.

The announcement came as Sutcliffe revealed pre-tax profits for the half year to end-September up 16 per cent from £633,000 to £735,000. Turnover increased from £15.7m to £28.9m. At the operating level profits rose from £988,000 to £1.75m.

Mr John Bellak, chairman, said the result had been adversely hit by four months' lost production from a new kiln and the increases in interest rates, which had inevitably had an effect.

However, he believed the group now had a firm base in the business of environmental control and order books were "healthy" particularly for water screening products.

Greenbank and its subsidiaries comprise water treatment systems, desalination equipment, screw pumps and other drying and curing systems. To pay for these, and the assets of US-based Water and Effluent Screening Operation, Sutcliffe is issuing 1.92m shares at 152p per share. Smith New Court and County NatWest Wood Mackenzie are handling a vendor placing to raise £2.9m, and a cash placing for £1m. Following the announcement, Sutcliffe's share price moved down 1p to 159p.

Sutcliffe will raise further capital by agreeing to buy Greenbank's Colchester headquarters for £1.1m, while negotiating a conditional sale for the same property for the sum of £5.85.

Overseas side helps Allied Colloids to 20% profit growth

By Clare Pearson

ALLIED COLLOIDS, the speciality chemicals manufacturer, achieved a 20 per cent increase in pre-tax profits to £19.2m in the half-year to end-September.

The outcome compared with £15.99m, and was scored on turnover which showed an increase to £102.36m (£94.22m). Operating profits surged to £18.34m (£15.58m) and interest receivable rose to £864,000 (£415,000).

Sales growth came almost entirely from overseas. Reflecting dullness in the British markets for the group's products, UK turnover barely moved ahead to £17.03m (£16.12m).

Strong markets elsewhere, by contrast, combined to lift overseas sales from £68.81m to £85.33m.

Exchange rate movements, principally the strengthening of the US dollar and the D-Mark, added about £1m to the pre-tax line, Sir Trevor Holdsworth, chairman, said.

Sir Trevor said prospects for the second half would allow the group to show an improved performance over the corresponding period.

"I do not see demand overseas tailing off," Sir Trevor said.

The largest division by sales is the pollution business. The others comprise paper, mineral processing, general industries, agriculture, and oil services.

Capital expenditure amounted to £12m during the half, and is on course to total £21m in the full year. Much of this is in the US, where new plant is set to come on stream in the first quarter of next year.

Earnings per share rose to 4.51p (3.86p). The interim dividend is stepped up to 0.75p. (0.65p).

● COMMENT

These results, flattered by comparison with a dull first half last time, troubled the market. It had been expecting improved conditions in terms of exchange rates and raw material prices, together with the uplift in sales, to produce an improvement in margins. In the event, quarterly price negotiations meant the improved raw materials prices did not work through as thought; at the same time, the way the company took foreign exchange cover meant currency movements did not yield as much benefit at the profit line as had been expected. The company ascribed lower margins to loss of certain types of UK business. The result was a 13p fall in the share price to 160p as analysts shaved full year pre-tax profits forecasts to about £42m. In the longer term, improved buying and currency conditions should start to make themselves felt, but the onus is clearly on the company to maintain its robust sales growth. The prospective p/e is now about 15.6; the shares are likely to drift.

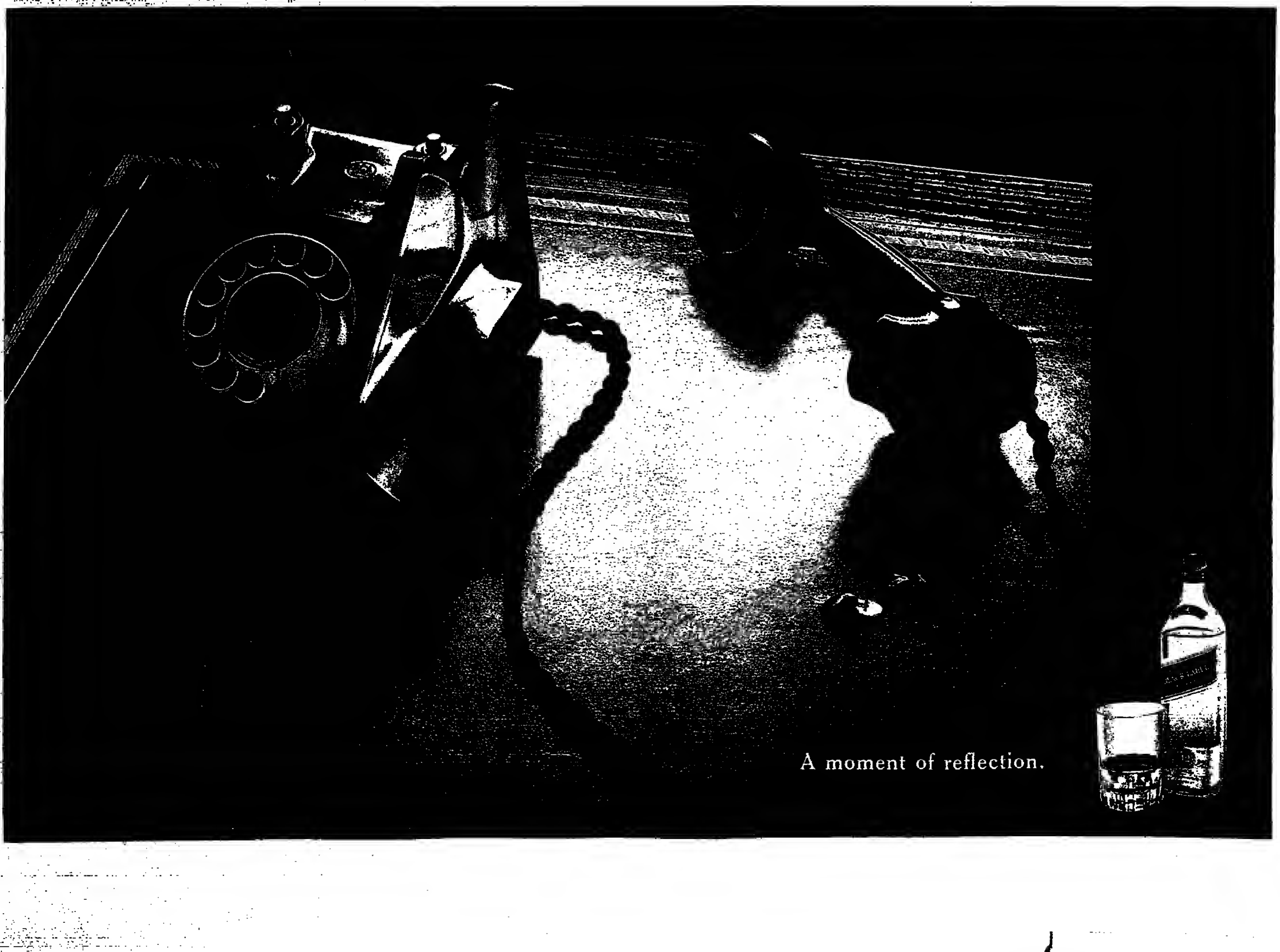
Losses on electronics side cut Atkins to £250,000

LOSSES AT its electronics subsidiary, Cartner Engineering, reduced pre-tax profits at Atkins Brothers (Hosiery) from £390,000 to £250,000 for the half year ended September 30.

Turnover for the Leicestershire-based company advanced to £10.11m (£9.25m) but operating profits fell to £321,000 (£573,000) with hosiery and knitted garments contributing £617,000 (£568,000) and electronic equipment and contract design incurring losses of £241,000 (£79,000 profits).

An interim dividend of 3.6p (3.3p) is declared, payable from reduced earnings of 4.14p (6.64p). There was an extraordinary £20,000 (£18,000) debit.

Mr WG Dawson, chairman, reported that although Cartner was currently busy the directors had decided to sell the electronics division before the end of the financial year.



COMMODITIES AND AGRICULTURE

Rustenburg refinery runs into teething difficulties

By Jim Jones, in Johannesburg

RUSTENBURG Platinum's new precious metals refinery has run into teething problems which have left production of platinum group metals (pgm), particularly rhodium, well behind schedule.

The refinery, in the nominally independent black state of Bophutbatswana, was opened in March to replace two older refineries now closed in South Africa and Britain.

Perceived shortages of physical metal have pushed rhodium prices np sharply to about $1,800 an ounce from abont $1,300 a fortnight ago. The shortages have apparently been compounded by slower deliveries from the Soviet Union and rumoured technical problems at other South African platinum mines.

Prices have also been lifted by European antomakers trying to secure supply contracts for the 1990s, when pgm-based exhaust catalysts are due to be fitted to cars to comply with clean air regulations.

Rustenburg had expected the new refinery to shorten considerably the processing time of pgm.

Recovery of the insolnble metals such as rhodium could take a year in the old refineries. The new refinery had been expected to cut the process time to about five months.

The company does not disclose its pgm production figures, but Rustenburg generally supplies about one third of the world's 305,000-ounces annual supply of rhodium.

The company will not say how much expected rhodium production has been lost, but local metals analysts estimate the shortfall could be about 30,000 ounces by the time normal prodnction levels are achieved early next year.

Rustenburg says the flow of semi-pure rhodium into ths final refining stages is now running at the design rate. It adds that production of platinum and palladium is virtually up to expectations. The refinery's teething problems seem to have had little effect on the much larger platinum and palladium markets.

Metals analysts here have added to the rumours by saying other South African platinum producers have experienced difficulties recovering rhodium and other insolubles.

Mr Kevin Wilkinson of Western Platinum said, however, this was not the case with his company. Abont a year ago contaminants in ths ore disrupted Western's rhodium recovery process, and semi-pure metal was shipped abroad for refining for a while.

This sort of disruption happens periodically and can affect a finely-tuned refinery's operations. The new Crocodile mine, managed by Rand Mines, does not recover rhodium, ruthenium or iridium in South Africa but as a matter of course sends semi-pure metal abroad for final recovery.

DE BEERS Consolidated Mines is to go ahead with the Venetia Diamond Mine in the northern Transvaal at a cost of R1.1bn, writes David Blackwell. The group said that, at full production, the mine would yield more than 4m carats a year from the treatment of 3.3m tonnes of ore. The mine will begin limited production in the second half of next year, and is expected to reach full production in 1993.

Gencor to open large gold mine

By Jim Jones

GENCOR, South Africa's second largest mining bouse, is to open a large gold mine in the Orange Free State, immediately to the south of the Vaal Reefs mine.

The Weltevreden Mine will not be quoted on the Johannesburg Stock Exchange but will remain owned by its promoters. It will exploit shallow ore on the Ventersdorp Contact Reef (VCR) and is expected to start production within 30 months at a comparatively low cost.

In Johannesburg yesterday Mr Barry Lund, head of Gencor's gold projects division, said the ore lies at depths from 100 metres below surface to about 1,100 metres.

The shallowness permits considerable flexibility in mine planning, reduces risk and allows the mine to be opened by a decline shaft. Mr Lund said it will cost R160m (£39m) in mid-1989 terms to develop the mine to an initial ore processing rate of 30,000 tonnes/month and that the first ore will be milled in the second half of 1992.

Thereafter expansion to 90,000 tonnes/month will be undertaken at a 1989 cost of R100m, but only after initial mining has confirmed the results of the surface exploration drilling.

At this stage, the plan is to start the expansion early in 1995 and to pay for it out of mining profits. The Weltevreden area was first drilled by the old Union Corporation group over 50 years ago and has been drilled periodically since then.

Profitable exploitation has only recently become possible, however, as the industry's break-even grades are at their lowest in almost 70 years. That, in turn, has come about as a result of the rand's progressive weakness – in spite of a poor dollar price for gold and the fact that mining costs have been rising at 15 per cent or more annually for several years.

Mr Lund said the initial mining area would deliver a total of 20m tonnes of VCR ore to the mill at an average gold recovery grade of 5.1 grammes per tonne, although grades will be about 4 grammes/tonne during the first few years of operations. Mr Lund added that additional ore will most likely be mined outside the initial area. Other gold-bearing reefs exist in the mine property but have been excluded from mine planning.

WEEKLY METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,725-1,760 (1,750-1,800).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 4.20-4.60 (4.20-4.65).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 4.75-5.20 (5.00-5.40).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.40-7.60 (7.40-7.70).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 240-255 (245-255).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.58-2.68 (2.55-2.65).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.40-6.00 (5.35-6.00).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 44-60 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 2.30-2.50 (2.50-2.80).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.60 (same).

Keeping the Falkland Islands' squids in

Gary Mead on the mutual interest that may make Britain and Argentina compromise

MILLIONS ARE sitting down in the Far East tonight to a meal which started life thousands of miles away in the South Atlantic.

Their squid suppers were, in all probability, swept up by one of the dozens of jiggers and trawlers which bought licences from the Falkland Islands Government last year to fish within the 150-mile Falklands Interim Conservation and Management Zone (FICZ), thrown around the islands by the British Government on 29 October, 1986.

Selling fishing licences has meant a boom for the islands' government and for the few lucky Falklanders who got into this business as middlemen (licence brokers). However, the lucrative squid harvest is a serious bone of contention between the British and Argentine governments. Argentina regards the waters around the Falklands as Argentine territory and wants a share of the profits from both the licences and the catch.

That political turbulence may be cleared up in Paris on December 18, when Argentine and British representatives are dne to meet. The meeting forms part of the series of negotiations, which will culminate in a third high-level diplomatic session in Madrid next February.

Senior Argentine diplomats hope that the Paris talks will lead to Argentine and British co-operation in the allocation of fishing licences and conservation in the South Atlantic. That will alarm the Falklanders, who will regard any such agreement as the thin end of the wedge.

Leaving aside the political implications of such an agreement, it would appear to make good sense as far as conservation of a valuable but extremely sensitive resource is concerned. Doubt currently hangs over the area around the north-west of the Falklands, where 157 licensed trawlers will scoop up Illex by the cartload from March 1990. There is a serious possibility that stocks may run out – due to the failure of current conservation measures – and render the present Falklands' boom little more than a latter-day South Sea Bubble.

The sale of fishing licences to foreign vessels has displaced sheep farming as the Falklands' biggest revenue earner. Its government's budget for the financial year July 1 1989 to June 30 1990 estimates that out of total revenue of more than US$60m (£39.5m), 71 per cent ($42.6m) will come from sales of fishing licences. Of the various fin-fish and squid captured, by far the most valuable is the Illex squid.

Licence revenue has steadily increased from $21.2m in 1987, the first season – in 1988 it went up to $24.8m.

For the boom to develop into a stable industry there is need for a guarantee of long-term conservation of fishing stocks, particularly for Illex. The Illex has a one-year life-cycle and is vulnerable to being wiped out in a single season. Last season the single most successful vessel caught squid at a rate of more than 70 tonnes per hour.

The FICZ has "three main objectives," according to the local government's Fisheries Report for 1987/1988. They are:

- "to conserve the resource, and thus ensure its continued productivity;"
- "to maintain the economic viability of the fisheries as a whole;"
- "and to enable the Falklands to enjoy greater benefits from the resource."

On the Falklands, however, there is a growing fear that both the first two aims are failing and so threatening the third.

The islanders' hopes of establishing an autonomous revenue base translates into a political aim – insuring themselves against any future encroachment by Argentina. Ironically, that political aim may be dependent upon reaching an agreement with Argentina, since the squid migrate from Argentine waters to breed in Falklands waters, and then return to spawn in Argentine waters.

While the squid are much larger (and therefore more profitable) once they have reached the Falklands, considerable unlicensed and unmonitored fishing currently goes on nearby and within Argentine waters, where the squid are relatively under-developed. The Paris meeting will probably attempt to reach an agreement to ensure that only the mature Illex are caught, in the interests of both Argentine and Falklands fishing industries. Falklanders may have to accept the politically distasteful to preserve the economically advantageous.

A further twist to the issue is that feelings among Falklands councillors and others are currently deeply suspicious of what is seen to be long-distance control of the Falklands fishing boom by UK interests, represented on the ground by UK-appointed personnel who control the allocation of fishing licences, conservation policy; and to a large extent how the fishing revenue is spent.

One controversy centres on a decision taken by the Chief Executive – a UK appointee, currently Mr Ronald Sampson, who deputises for the Governor in his absence – to hold "voluntary restraint agreement" meetings with foreign fishing associations in London in September.

Those talks attracted wide criticism from islanders who were trying to break into the fishing business by acting as licence brokers.

They have suggested that the London talks resulted in allocation of licences to foreign fishing associations before the October closing date for receiving applications. "A complete farce" is how one Stanley businessman described the talks.

According to the Fisheries Report, conservation of the Illex stock should mean that 40 per cent of the squid which would have annually survived – had there been no fishing – should be allowed to escape. Mr Sampson said that he had hoped the September talks would see a "30 to 35 per cent escapement rate but we were beaten down to 20 per cent."

He added that that pressure from foreign fleets may eventually "kill off the stock, but we must hope that that day can be put off for as long as possible."

Mr Sampson estimated that in the past two fishing seasons, escapement rates had been as low as 7 to 10 per cent. Therefore he sees the September talks as a success in that they pushed back the fleets' rapacity by 100 per cent. However, trawlers will once again take considerably more Illex next season than the islands' government has recommended.

There are also tactical misgivings on the issue of poaching prevention within and on the perimeter of the FICZ. The government has one patrol vessel, "The Desire", which has a lower top speed than the slowest foreign fishing trawler.

"The Desire" is backed up by a Dornier 228 aircraft but that is being replaced (for cost reasons) by two small "Islander" aircraft, which are as yet unknown quantities when it comes to tracking down poachers.

"We are going to be hard pressed this coming season," said one anti-poaching patrol member.

In spite of the likely disgust of the Falklanders, the British and Argentine governments therefore go to Paris with a mutual aim already in mind – to make sure that squid suppers are around for many years to come to Anglo-Argentine benefit – never mind who actually owns the Falklands.

FALKLANDS ISLANDS FISHING

	Total catch		Est value	
1987 Species	tonnes	%	$(m)	%
Illex squid	142,000	45.1	171	56.6
Loligo squid	82,500	26.1	107	35.6
Blue whiting	48,000	15.1	9	3.0
Hake	16,600	5.2	7	2.4
Other species	27,000	8.5	e	2.2
1988				
Illex squid	210,000	53.1	128	53.7
Loligo squid	54,000	13.7	73	31.1
Hake	51,000	12.9	20	8.7
Blue whiting	48,000	12.1	7	3.0
Other species	32,000	8.2	e	3.5

Source: Fisheries Report 1987/88, Falkland Islands Government

Non-Communist supplies of oil reach 54.7m b/d

By Steven Butler

OIL SUPPLIES outside Communist countries touched their highest levels since the third quarter of 1979 in October and November – at 54.7m barrels a day – the International Energy Agency said yesterday.

The IEA put production by the Organisation of Petroleum Exporting Countries, at 23.3m b/d for the two months, although its estimate is slightly lower than others. Within Opec, a decline in Iranian production was offset by increases in Kuwait and Nigeria. North Sea production was unchanged.

The IEA lowered its estimates for oil consumption in the industrialised countries in the third quarter to 36.3m b/d, which represents only a 0.3m b/d increase over 1988. Fourth-quarter consumption is expected to fall 1 per cent due to the exceptionally high growth of a year ago.

This would lead to a full year increase of about 1 per cent in industrialised countries. Flat consumption in Europe and North America is balanced by stronger growth in the Pacific region.

A higher rate of growth in the developing countries, however – over 4 per cent – will push demand for the year outside the Communist countries to 51.8m b/d, an increase of 1.8 per cent. The IEA estimates oil demand in the developed countries will grow by 1.6 per cent, or 0.8m b/d, in the first nine months of 1990.

AFCC expels Philipp Brothers

By George Graham, in Paris

THE FRENCH cocoa trade association (AFCC) yesterday expelled Philipp Brothers (Phibro), one of the world's leading commodity trading groups, after it had failed to meet a December 4 deadline for paying compensation awarded to a number of other traders under the association's arbitration procedures.

Traders said yesterday that Phibro had sold cocoa contracts last year to five traders and to the International Cocoa Organisation but had failed to deliver, claiming that it had been unable to obtain the cocoa from the Cote d'Ivoire cocoa marketing board.

Phibro, a subsidiary of the US investment bank Salomon, has an appeal pending in the French commercial courts against the AFCC arbitration proceedings, bnt ths association rules say that payments, estimatsd to total over FFr300m (£31.5m) must be made, notwithstanding any appeal. The expulsion was decided by the AFCC board on November 10 bnt had been suspended to give Phibro a last chance to pay up.

The expulsion means that Phibro will not be able to write its own AFCC standard cocoa contracts, but it will be able to trade contracts written by other member firms. AFCC contracts are the norm for trading almost all cocoa from Cote d'Ivoire, the world's largest producer, and from Cameroun, while Ghana tends to use London contracts.

The impact on Phibro's good standing in the market is more difficult to assess but could in the view of some traders prove to be more damaging.

"More than the juridical problems, it raises the question of their reliability as a counterparty. Some traders may choose not to deal with them if they see they do not fulfil their engagements," commented one Paris cocoa trader.

Another trader said that the dispute was in some ways the aftermath of Phibro's battle last year with Sucre et Denrées (Sucden), the large French trader, over the Cote d'Ivoire cocoa crop. The Cote d'Ivoire cocoa board sold around 60 per cent of its crop last year to Sucden and the rest to Phibro. However, a similar sale for this year, with the proportions reversed, was cancelled, and the country has returnsd to selling in smaller parcels.

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices fell again on the LME yesterday. Cash metal closed at £1,518 a tonne, a fall of £50 and the lowest closing price since the middle of July. This discount for cash metal is [illegible]

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	662	655	667 640
Mar	654	655	654 647
May	667	666	667 661
Jul	680	680	679 676
Sep	697	697	695 693

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 20,100 tonne
Cash	1651-5	1680-2	1649	1649-50		
3 months	1661-2	1661-2	1680/1655	1658-9	1665-6	
Copper, Grade A (£ per tonne)						Ring turnover 40,300 tonne

US MARKETS

GOLD, SILVER AND PLATINUM all featured two-sided action after Monday's heavy declines, but finished the day higher from scattered short covering, reports Drexel Burnham [illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	20.10	20.25	20.39	20.15
Feb	20.06	20.08	20.22	20.01
Mar	19.86	19.90	20.05	19.82
Apr	19.70	19.72	19.86	19.66
May	19.55	19.57	19.70	19.53

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	576/0	572/2	576/6	571/0
Mar	566/2	585/4	589/0	585/0

LONDON STOCK EXCHANGE

Building shares lead equities ahead

THE UK stock market was favourably impressed by the performance of Mr John Major, the UK Chancellor, in his first political grilling by a Parliamentary Committee. With its hopes that further rises in domestic interest rates will be avoided still undented, the equity sector registered another double digit gain on the FT-SE Index, with investors encouraged by the growing indications that the water privatisation issues are heading for a major success.

The attention switched away from the financial sectors which have led the market ahead over the past week. In fact, bank stocks were notable laggards as a UK house joined the list of securities firms now downgrading the UK banking stocks.

Account Dealing Dates			
First Dealings:	Nov 27	Dec 11	Dec 27
Option Declarations:	Dec 7	Dec 27	Jan 11
Last Dealings:	Dec 8	Dec 28	Jan 12
Account Day:	Dec 18	Jan 8	Jan 22

*New time dealings may take place from 9.00 am two business days earlier.

The market lead was taken up in style by the building and construction issues, where the fuse was lit at a meeting of analysts with BPB, the plasterboard manufacturer, at its plant in West Germany. UK building companies hope to benefit from the boom now predicted for East Germany.

A further stimulus came from property shares, where the suspension of British Land, one of the leading UK groups, ahead of a company statement today, set the sector alight. Analysts speculated on British Land's intentions – one possibility is that it might float off its most important asset, Plantation House in the City of London.

The market moved ahead steadily during the morning, and responded readily to a mixed buy and sell programme worth about £70m operated by a large UK marketmaking house.

London equities closed at the day's best levels despite some concern over the sluggish opening on Wall Street following IBM's confirmation of extensive restructuring plans. At its final reading of 2,327.5, the FT-SE Index was a net 24.1 higher on the day. Seaq volume at 428.5m was a shade under Monday's level but sustained the modest improvement of the past week.

Once again traders stressed the tightness of marketmakers' positions which often sent share prices higher in thin trading. Property stocks, it was noted, jumped sharply even though the first announcement from British Land provided little reason for a general upturn.

Another significant buttress for market confidence has come from unofficial pre-market trading in the ten water privatisation issues, which are now indicating premiums of 20 points or more. Profits on the water issues by private investors are expected to find their way back into equities fairly quickly, while institutional profits will provide further cushioning for liquidity positions at the leading funds which are already believed to range to around 7 per cent of assets, a high proportion by historic standards.

FINANCIAL TIMES STOCK INDICES

	Dec 5	Dec 4	Dec 1	Nov 30	Nov 29	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.02	82.93	82.96	83.06	83.15	87.22	89.29 (8/2)	82.93 (4/12)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.40	92.40	92.33	92.38	92.38	96.51	98.59 (15/3)	92.33 (1/12)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1836.8	1823.0	1833.6	1805.6	1781.7	1444.8	2008.6 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	288.7	294.3	293.2	280.5	286.9	180.6	300.0 (27/11)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2327.5	2303.4	2311.1	2278.8	2255.6	1767.4	2426.0 (5/9)	1782.6 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.63	4.66	4.65	4.73	4.79	5.01				
Earning Yld %(full)	11.24	11.28	11.26	11.44	11.60	12.69				
P/E Ratio(Net)(☆)	10.77	10.71	10.72	10.56	10.41	9.52				
SEAQ Bargains(5pm)	27,026	29,386	31,434	25,241	25,139	21,099				
Equity Turnover(£m)†	-	789.74	1011.72	804.35	959.90	785.90				
Equity Bargains†	-	29,620	35,858	23,948	25,922	21,218				
Shares Traded (ml)†	-	369.2	448.0	351.0	370.2	418.3				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.70

Ordinary Share Index, Hourly changes — Day's High 1836.8 — Day's Low 1818.3

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1818.3	1821.1	1822.4	1826.1	1827.3	1829.4	1830.0	1831.1

FT-SE, Hourly changes — Day's High 2327.5 — Day's Low 2301.2

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2301.2	2304.3	2307.8	2312.8	2315.4	2317.7	2318.9	2320.8

GILT EDGED ACTIVITY

Indices*	Dec 4	Dec 1
Gilt Edged Bargains	81.3	73.3
5-Day average	85.7	84.2

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change
ASDA Group	13,000	113	-4
Abbey National	3,000	182	+1
Allied-Lyons	1,200	496	+7
Amstrad	1,800	39	+1½
Argyll Group	350	213	+3
Ass. Brit. Foods	95	428	+4
BAA	304	382	
BAT Inds.	1,400	825	+7
BET	352	276	
BICC	1,200	474	+17
BOC	1,300	521	+11
BPB Inds.	1,100	231	+6
BTR	507	465	+2
Barclays	4,500	548	-3
Bass	965	1094	+10
Blue Circle	1,800	230	+10
Boots	3,400	277	-2
Brit. & Comm.	7,800	95	+6
Brit. Aerospace	949	517	+18
British Airways	8,700	212	-1
British Gas	8,100	220½	+4
British Land	520	359	
BP	7,800	316	+4
British Steel	6,900	127½	+½
British Telecom	3,700	274	+2
Burmah Oil	275	487	-3
Burton	4,500	201	+2
Cable & Wireless	[illegible]	522	+9
Cadbury Schweppes	1,200	349	+2
Carlton Comms.	273	850	
Commercial Union	770	484	+1
[illegible]	549	274	+3

Stock	Volume 000's	Closing Price	Day's change
Courtaulds	674	371	+2
Dalgety	395	357	+4
Dixons	4,000	119	+11
Eng. China Clays	534	421	+14
Enterprise Oil	245	643	+7
Fisons	2,300	364	+12
General Accident	583	1190	+3
General Elect.	7,000	219½	+1½
Glaxo	1,000	770	+10
[illegible]	[illegible]	[illegible]	[illegible]

Stock	Volume 000's	Closing Price	Day's change
LASMO	[illegible]	572	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Banking stocks unsettled

The banking sector, among the best performing sectors last month, was one of the most volatile yesterday, responding first to a downgrading of profits forecasts and then rallying in line with the rest of the market.

The big four banks opened with marginal gains but came under selling pressure as news of a widespread profits downgrading by County NatWest WoodMac filtered into the market. Mr John Aitken at County cut his forecasts for the current year and for next year, citing worries about the level of bad domestic debts and that "normal profits are not growing as expected."

Mr Aitken reduced his forecast for Barclays from £900m to £840m and that for NatWest from £500m to £540m. He reckons Lloyds' will incur a loss of £650m and Midland one of £975m. The County analyst also came out with big cuts in his forecasts for 1990 pre-tax profits. The figure for Barclays is reduced from £1.66bn to £1.58bn, for Lloyds from £1.15bn to £1.1bn, for Midland from £775m to £735m and for NatWest from £1.575bn to £1.485bn.

"The banking business," says Mr Aitken, "is going to be flat this year and flat next year. I think bank shares are going down before they go up." Mr Rod Barratt, banks analyst at Goldman Sachs, is forecasting even lower 1990 profits for the big-four. For Barclays he is going for £1.56bn, for NatWest, £1.38bn, Lloyds, £1.06bn and Midland £680m. "Expectations will have to come down," said Mr Barratt, "because of lower growth and the risk of recession in the UK." Barclays closed 3 off at 548p, after 542½p, Lloyds were a penny up at 428p, after 420p, Midland settled 5 down at 354p, after 349p and NatWest were finally 4 lower at 340p, after 336p.

British Land drama

British Land climbed 14 to 359p in early trading before its suspension at nine minutes before the official market opening at 9.00, by which time more than 500,000 shares had changed hands. Only a week ago the shares touched their year's low of 296p.

The suspension announcement was terse and lacking in detail, leaving the market to speculate that a takeover might be in the offing and sparking an explosion in the prices of other leading property issues. A fuller but still tantalising announcement at 9.39 said the company was finalising proposals "to maximise shareholder value which do not involve an offer for the company." More details are promised for today.

One theory in the market was that the group has plans involving Plantation House, the prestigious property in the City of London which represents 28 per cent of British Land's assets. These might, according to market analysts, include basing a trust fund on the Plantation House assets, perhaps, hiving them off into a separate company, or even sell it. Another suggestion was that *the company, unhappy at the 40 per cent discount to asset value in the share price, plans to buy in stock.*

Reuters busy

Reuters moved ahead strongly at the start of trading and continued beyond the £10 mark to close at an all-time high of 1001p. The initial impetus for the rise was provided by heavy overnight demand for the ADRs – dealers said that ADRs for the equivalent of almost 3m shares changed hands in New York on Monday, eight times the London turnover. Similar ratios were reported yesterday.

Much of the ADR trading was being done by London-based Société Générale Strauss Turnbull where Mr Paul Tisch said the company was doing around half the ADR business. US investors were said to be encouraged by positive press comment in the US on Reuters; marketmakers in London were excited by the prospect of a presentation on the company late yesterday in New York by a large local securities house and with Reuters' top management. "Companies don't give presentations to be gloomy," said one analyst.

The suspension of British Land sparked a rally by front line property stocks. The sector calmed down after the later announcement that the company was not a takeover target, but all the leaders closed better on the day on strong volume. Laing Property climbed 17 before slipping back to close 14 up at 502p on volume of 4.1m. Land Securities rose 22 and closed 20 better at 548p. MEPC, having rapidly risen 25, ended 19 ahead on 548p on volume of 5.3m. Hammerson A advanced steadily to finish on 810p, up 19 and Rosehaugh added 25 at 498p. Volumes were also good in the leading issues. Dealers said that activity in the second-ranking property stocks continued to be sluggish.

The action in the banks was not confined to the big-four. TSB shares stuttered for much of the session but then moved up strongly late in the day to close with a 6 gain at 127p, just 6 short of the 1989 high; turnover was a bigger than usual 6.7m shares. Dealers said there had been a resurgence of recent stories that a Continental stake-builder had been operating. The bank is protected from being taken over up until the end of September 1991. Thereafter, as Mr Julian Robbins of BZW puts it, "If TSB does not get it right someone else may make an offer to do it for them."

Royal Bank of Scotland also featured, the shares adding 5 at 192p, again on talk of a Continental takeover. Some large lines of Royal Bank shares showed up on the ticker but were believed to have been part of the programme trades in the market yesterday.

The building sector shrugged aside the latest bearish report from the Building Material Producers. Dealers said attempted buying from a handful of leading brokers quickly revealed an acute shortage of stock and the whole of the sector advanced strongly throughout a busy trading session.

The best gains were in BCI, which rose 10 to 230p with a single trade of 1m adding impetus to the upturn in the shares, RMC, up 17 at 663p and Tarmac which put on 9 to 243p. BPB were a further 7 higher at 230p as analysts continued their visit to the group's West German operations.

J.Crosby, the North West housebuilding group, surged 20 to 98p after the 70 per cent-plus jump in interim profits and the accompanying bullish statement.

The oil and gas issues staged a strong advance, still responding to the recent cold weather in Europe and the US. The cold weather factor was said to have had most impact on British Gas, which moved up 4 more to 220½p on 8.1m shares but it also lifted Calor, which added 12 at 440p.

Shell, where UK analysts are continuing their visit to the group's Far Eastern interests, rose 9½ to 467p on 3.8m, and BP put on 4 to 316p on 7.8m shares.

LASMO sprang to life, rising strongly to close 16 higher at 572p with dealers noting keen interest in the traded options.

Dixons were firm as dealers became convinced that one securities house had gone short in eurosterling convertibles and covered itself in the traded options market, from which demand spilled over into equities. Dixons did top the list of actives in traded options, with the equivalent of 2.6m shares traded, but convertibles dealers reported very quiet trading and a price unchanged for a week. The shares turned over 6m as the price advanced 11 to 119p.

Kwik Save were popular and 14 up at 576p. The shares have been firm in recent days as the market has taken an increasingly pessimistic view of Asda. The two are rivals in the North of England and difficulties at Asda have been interpreted as being correspondingly good for Kwik Save, especially in terms of market share. There was also recurrence of vague bid talk concerning 25 per cent stakeholder Dairy Farm of Hong Kong. The press comment that followed Asda's profits warning on Monday further undermined the shares, which fell another 4 to 113p.

An early big sell order in Boots, "knocked the stuffing out of them," in the words of one dealer. The shares slipped 2 to 277p.

Dealers said that long lines on offer of Sears and Kingfisher held back both stocks. The former was also hit by a profits downgrading from Nomura and shed 2 at 104p. Kingfisher caught up with the market late in the day and managed a closing gain of 2 at 307p.

Mr Andrew Hughes of Nomura cut his forecast for the current year from £230m to £205m, "that is, from the top of the range to below the bottom," he said. Mr Hughes cited flat volume and falling prices in footwear as well as the impact of high interest rates at a time of high stock levels. "The shares are a bit expensive," he concluded.

Profit-taking knocked Body Shop after many days of strong rises. The shares closed 24 down at 514p. "It had to come sooner or later," mused one dealer.

Fisons had a good day following a presentation at a large securities house. The shares climbed 12 to 364p.

Grand Metropolitan had a troubled day, closing 2 off at 565p, after 562p. One broker was said to have been telling clients to sell ahead of the figures on the grounds that there would be a higher property element in the profits than predicted.

Talk of a brokers downgrading of Trusthouse Forte did not help the shares, which closed 1½ off at 304½p

GEC's interim profits, up from £313m to 357m, were above most analysts' expectations, and GEC shares moved up to 220½p before easing back to close a net 3½ higher at 219½p. But analysts said the figure was boosted by interest on other items and that operating profits were up less than 2 per cent. Commenting on the figures Mr Christopher Tucker at Kitcat & Aitken said he thought there would be "No great rush to significantly change profits estimates."

Cable & Wireless rose sharply late in the day, closing 9 higher at 522p on speculation that official confirmation of the Mannesman consortium winning the second West German cellular licence may be brought forward from December 12.

BICC added 17 more to 474p, still boosted by the UBS Phillips & Drew recommendation.

The transport section was slow. P & O rose 13 to 594p on the back of the interest in the property sector. Eurotunnel, which had climbed over 80p in an unbroken advance over the previous two weeks, fell 33 to 613p on profit-taking.

Trafalgar House eased at first but then turned higher to close at 350p, a gain of 8 as the company reported an 18 per cent increase in profits.

Profits, revealed yesterday, rose from £229.1m to £270.4m this year but the dividend increase was only 10 per cent, a factor which disappointed the market. The market was also nervous about a warning from Trafalgar that profits from its house building sector would come under pressure in the coming year, due to the downturn in UK house purchases.

The shares were later lifted however by positive sentiment in the property sector, generated by an expected announcement from British Land.

Allied Colloids fell as the company reported interim figures below market expectations. The eased 13 to 173p on publication of the figures.

British Aerospace bounced following its falls in previous day on fears that the European Commission was about to order an investigation that would force it to repay the secret £38m "sweetener" from the UK Government as part of the deal for the purchase of Rover Group. Those fears remained but the shares gained 9 to 516p.

News of a joint venture with Sumitomo Electric Industries of Japan helped Lucas. The shares closed a penny up at 606p.

Rolls-Royce gained 3 to 168p with a number of large buyers in the options market. Turnover was reasonable at 4.6m and a marketmaker said: "It seems that those with fears about British Aerospace are switching to Rolls-Royce."

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 29

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (70). BRITISH FUNDS (1) AMERICANS (5) CANADIANS (3) BANKS (8) BREWERS (1) BUILDINGS (1) STORES (1) FOODS (4) INDUSTRIALS (8) Baxter Intl., Jardine Strategic, Novo Inds. "B", Parkfield Grp., Proudfoot, Reuters, Schlumberger, Unilever, INSURANCE (3) PAPERS (1) TRUSTS (28) OILS (6) OVERSEAS TRADERS (2) MINES (6).

NEW LOWS (146). BRITISH FUNDS (61) INT.BANK & O'SEAS GOVT. STLG. ISSUES (7) FOREIGN BONDS (1) BANKS (1) BUILDINGS (8) CHEMICALS (1) STORES (2) ELECTRICALS (18) ENGINEERING (3) FOODS (3) INDUSTRIALS (20) AAF Inv., Allieds Part., Apollo Watch Prods., Baird (Wm.), CRT, Charterhall, Co. of Designers, Courtney Pope, Essolte, Forwell, Grampian, Lincat, PCT Grp., Scot. Heritable, Scott Robertson, Spectrum, TSL Range, Tams (J.), Westmex, Young (H.). LEISURE (4) MOTORS (4) PAPERS (3) PROPERTY (1) TEXTILES (4) TRUSTS (3) OILS (1) MINES (1) THIRD MARKET (1).

APPOINTMENTS

Investment banking post

Mr David Hudson, former deputy chairman and chief executive of Henry Ansbacher & Co, is to become a significant shareholder and full-time executive director of CAMPBELL LUTYENS, a two-year-old firm specialising in investment banking services for corporate clients, *writes David Lascelles, Banking Editor.*

On completion of the arrangements, the firm's name will be changed to Campbell Lutyens Hudson & Co.

Mr Hudson said yesterday that he believed there was an important place in the London corporate finance market for small independent firms. "I have always had a hankering to do something like this," he said.

DAVID HUDSON

The other partners in the firm are Mr John Campbell, formerly of Noble Grossart, Mr Richard Lutyens, formerly with Merrill Lynch Europe, and Mr Bill Dacombe who was chairman of Rea Brothers until 1988.

Union Discount chairman

Mr Robin Herbert has been appointed to the board of THE UNION DISCOUNT COMPANY OF LONDON, and will become non-executive chairman after the annual meeting next March. He is chairman of Leopold Joseph Holdings, a non-executive director of the National Westminster Bank, and Marks and Spencer. He is also president of the Royal Horticultural Society.

Mr Herbert succeeds Mr Alexander J.O. Ritchie, who retires at the annual meeting.

Lazard Brothers board posts

■ Mr John Dear and Mr Andrew Blakesley will become managing directors of LAZARD BROTHERS & CO from January 1. Mr David Anderson, Mr Mark Francis and Mr Andrew Shrager will be appointed executive directors; and Mr David Cummings, Ms Stephanie Field, Mr Gordon Huntly, Mr Ben Meredith, Mr Derek McMillan and Mr John Wilford *will become assistant directors.*

Mr Nigel Fox Bassett *(above)*, a partner since 1960, will become senior partner of CLIFFORD CHANCE from May 1 next year when Sir Max Williams retires.

■ Mr David Chipp and Mr Tim Gold Blyth become non-executive directors of LLOYD'S OF LONDON PRESS from January 1. Mr Chipp is a director of The Observer, TV AM News, and the Reuter Foundation. Mr Blyth is a director of BET, and chairman of United Transport International. Non-executive directors Mr B.J. Brennan, Mr C.T.G. Blackmore, and Mr R.A. Huskisson have retired.

■ Mr Nicholas A.D. Johnson has been appointed a director of DRAYTON FAR EASTERN TRUST. He is chief executive of MIM Britannia, managing director of MIM, and a director of Britannia Arrow Holdings.

■ T.C. COOMBS & CO, stockbrokers, has appointed Sir Robin Craufurd and Mr A.H. Johnston to establish a convertible department. They join from ANZ McCaughan.

■ Dr Peter Harrop has been appointed chairman and chief executive of COMPUTER SECURITY INTERNATIONAL. He was managing director of Mars Electronics. Mr James Foord has been appointed managing director of Computer Security, the group's main UK operating company.

■ CHRISTIES INTERNATIONAL has appointed Mr Peter Blythe as group treasurer. He was assistant director, corporate finance, Prudential Portfolio Managers.

■ Mr Peter Howell-Davies has been appointed managing director from January 1 of the two companies Mercury Communications, and Telephone Rentals, which are being combined under the MERCURY banner.

■ Mr Robert Zenker will join COLORGRAPHIC early in 1990 as finance director. He is group projects and tax controller with the Virgin Group. Mr Noel Smith has resigned.

FT UNIT TRUST INFORMATION SERVICE

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	5	56.66	57.11	66.76	+0.43	4.51
Gilts & Fixed Inc	6	105.80	105.80	112.30	-0.10	8.90
High Inc Equity	6	131.20	133.20	142.50	-1.10	4.46
Worldwide Bond	6	208.95	209.90	221.40	+0.10	4.79
Capital Growth						
American Growth	6	209.50	211.50	225.00	+1.20	0.84
Asian Pacific	5	119.90	122.30	130.10	-0.10	1.00
Assets & Earnings	6	154.60	154.60	165.40	-1.30	2.24
Capital Reserve Acc	6	88.02	88.02	88.11	+0.19	4.54
Capital Reserve Inc	0	78.13	78.13	78.20	+0.16	5.12
Comdty & Energy	6	112.50	119.95	127.60	-1.50	1.99
Dividend & Growth	6	47.00	97.00	50.00	....	4.50
1992 Enterprise	6	61.01	63.10	67.15	-0.27	1.91
Euro Capital Acc	5	161.10	161.80	108.40	-0.16	0.69
Euro Capital Inc	6	97.25	98.04	104.30	-0.30	0.72
General	6	177.00	177.00	189.40	-1.80	2.64
International	6	68.84	62.43	00.36	+0.14	0.76
Japan	6	130.95	133.20	141.00	+0.50	0.00
Mastertrust	6	94.34	94.34	100.95	-0.10	1.00
UK Growth Acc	6	177.10	177.10	189.50	-0.80	1.40
UU Growth Dist	6	116.90	116.98	125.10	-0.60	2.24
US Emerging Cos	6	55.78	57.34	64.00	+0.75	0.00
Income & Growth	6	301.50	308.50	328.20	-2.07	3.12
Ethical	5	46.00	46.66	49.90	-0.25	2.00

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

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GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wardley Unit Tst Mngrs Ltd (0900)H						
3 Harbour Exchange, London E14 9GJ 01-955 5050						
American ♦	5¼	75.16	75.16	80.38	.....	1.4
Intl Growth ♦	5¼	87.06	87.06	93.11	+0.57	1.0
Income ♦	5¼	127.5	127.5	136.3	.....	4.7
Japan Growth ♦	5¼	259.6	259.6	277.7	-1.70	0.1
Pacific Perf ♦	5¼	171.4	171.4	183.3	-1.40	0.1
Small Co's ♦	5¼	128.3	128.3	137.2	-0.20	1.4
Technology	5¼	35.94	35.94	38.43	+0.09	0.1
Australian	5¼	66.96	66.96	71.61	-1.17	3.3
UK Trust ♦	5¼	173.2	173.2	185.2	+1.00	2.6
European Growth ♦	5¼	77.05	77.05	82.40	-0.11	0.1
Hong Kong ♦	5¼	34.68	34.68	37.09	-0.05	1.8
Intl Income	5¼	22.49	22.49	24.05	-0.07	7.3
Spec & Wlpn Gth	5¼	38.33	38.33	40.99	+0.58	0.1
British Winners ♦	5¼	26.17	26.17	27.98	+0.22	1.8
Japan Smllr Cos ♦	5¼	31.34	31.65	33.85	-0.20	0.1
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh 031-225 1551						
Australasian Gold	6	16.53	16.53	17.58	-0.38	0.00
Pacific Basin	6	31.16	31.16	33.14	-0.14	0.40
Can Balncd Gwth ♦	6	50.43	50.43	53.64	+0.05	0.64
Ginnie Mae ♦	4	0.9722	0.9722	1.0127	.....	7.44
Penny Share	6	28.34	28.34	30.14	+0.01	0.30
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4404						
Wellington Income	5¼	137.9	139.4	148.3	+0.3	5.01
Wellington Growth	5¼	230.0	232.1	246.9	+1.2	1.30
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex UK Gwth	4¼	109.4	112.9	117.7	+0.3	4.25
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger ♦ F	2¼	62.28	62.28xd	63.89	+0.12	0.00
Short Dtd Gilt ♥ F	1¼	82.10	82.10	83.29	+0.02	6.44
d S Govt Bond ♦ F	1¼	5.5784	5.5784xd	5.6600	.....	0.00
Wilfire Financial Services Ltd (0905)F						
PO Box 515, 6 Broadgate, London EC2 01-588 7511						
Aust Friars W'wide	5	198.7	202.4	215.3	.....	2.45
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Contrib & Equity	5	56.24	59.41	63.20	+0.2	7.44
European	5	80.09	80.43	85.56	-0.26	0.16
Far Eastern	5	63.40	72.57	77.20	+0.78	0.62
Growth Inc	5	76.36	80.16	85.27	+0.05	1.61
Growth Acc	5	76.65	80.23	85.35	+0.04	1.61
Income Inv	5	75.20	77.58	82.53	-0.27	5.11

	Bid Price	Offer Price	+ or -	Yield Gross
AEtna Life Insurance Co Ltd—Contd.				
Deposit	13.54		.....	-
North American	11.22	11.82	+0.08	-
European	11.69	12.31	+0.02	-
Property	11.86	12.49	+0.08	-
Index-Linked	12.73	13.35	+0.03	-
Far Eastern	15.33	16.14	+0.05	-
UK Equity	15.65	16.48	-0.11	-
Fixed Interest	11.97	12.60	-0.02	-
Gilt Edged 090	9.90	10.43	-0.10	-
1982 Series				
Managed	299.26	310.82	+0.11	-
Pre 1982 Series				
Aetna Life				
3 Way	694.24	694.25	-0.36	-
Equity Pension	1213.40	1213.41	-0.25	-
Aetna Pensions Ltd				
3-Way Managed	641.63	641.63	-7.02	-
Exempt Assurance				
Mixed Managed	219.33	223.81	-0.04	-
Gilt Edged	13.70		-0.01	-
Albany Life Assurance Co Ltd				
5 Darkes Lane, Potters Bar EN6 1AJ 0707 42311				
Life Funds				
Brit Blue Chip Fd Acc(z)	143.4	150.9	-1.2	-
Equity Fd Acc(z)	1051.0	1106.2	-6.7	-
European Fd Acc(z)	277.8	291.5	+0.3	-
Intl Fxd Int Fd Acc(z)	213.9	225.1	-0.2	-
Fixed Inv Acc(z)	344.6	362.7	-0.8	-
Gtd Money Fd Acc(z)	243.9	256.7	.....	-
High Income Fd Acc(z)	119.1	125.3	-1.0	-
Intl Man Fd Acc(z)	438.2	461.2	+0.3	-
Japan Fd(z)	321.9	338.8	-0.9	-
UK Smllr Co's Fd Acc(z)	112.0	117.8	-0.3	-
European Metro	122.7	129.1	+0.6	-
Global Metro	110.4	116.1	+0.2	-
Eurotax Metro	126.5	133.1	+0.1	-
UK Metro	109.3	115.0	-0.6	-
Nth American Fd Acc(z)	219.6	231.1	+0.8	-
Pac Basin Fd Acc(z)	165.9	174.6	+0.9	-
Prop Fd Acc(z)	352.7	371.2	.....	-
Millennium	98.5	103.6	-0.7	-
Multiple Inv Acc(z)	734.6	773.2	-2.2	-
Pension Funds				
Brit Blue Chip Acc(z)	162.0	170.5	-2.9	-
Eq Pen Fd Acc(z)	2051.3	2159.2	-17.2	-
Euro Fd Acc(z)	382.1	402.1	+0.4	-
Fixed Inv Acc(z)	717.4	755.1	-1.6	-
Gt Money Pn Acc(z)	449.3	472.9	+0.1	-
High Interest	152.6	160.6	+0.1	-

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

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Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 456721

	Bid Price	Offer Price	+ or -	Yield Gross
American	124.0	151.0	+1.0	—
Building Soc. Fd.	177.0	107.0	—	—
Balanced	284.0	299.0	-1.0	—
European	200.0	211.0	-1.0	—
GT Managed	188.0	198.0	—	—
Gartmore Mngd.	129.0	136.0	-1.0	—
German	162.0	171.0	—	—
Gilt	172.0	182.0	—	—
Global	49.0	52.0	—	—
High Inc.	106.0	112.0	—	—
International Equity	202.0	213.0	—	—
Japan	294.0	310.0	—	—
Managed	58.0	62.0	+2.0	—
Property	309.0	326.0	—	—
R. W. Imperial Gold	148.0	156.0	—	—
UK Equity	316.0	333.0	—	—
Pension Funds				
American	155.0	162.0	—	—
Building Soc. Fd.	181.0	191.0	—	—
Balanced	222.0	234.0	—	—
European	199.0	209.0	—	—
German	139.0	147.0	—	—
Gilt	153.0	162.0	—	—
International Equity	144.0	152.0	—	—
Japan	147.0	155.0	—	—
Managed	64.0	68.0	—	—
Property	238.0	251.0	—	—
UK Equity	303.0	319.0	—	—

Professional Life Assurance Co Ltd

Frobisher Hse, Nelson Gate, Southampton 0703 232323

	Bid Price	Offer Price	+ or -	Yield Gross
Pensions Managed Fund	95.64	101.09	—	—
Pensions Cash Fund	82.33	86.66	—	—

Prolific Life & Pensions Ltd

Stramongate Kendall Cumbria LA9 4BE 0539 733733

Managed Fund see Balanced Growth Managed Fund

Life Funds

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
134	124	Treas 2pc IL '90(084.6)	134	.....	[illegible]	9.98
99	98	Exch 11pc 1990‡‡	99	.....	[illegible]	14.56
101	99	Exch. 12½pc 1990	99	.....	[illegible]	14.55
96	91	Treas. 3pc 1990	96½	+⅛	[illegible]	12.25
97¾	95	Treas 8¾pc 1987–90‡‡	97	.....	[illegible]	14.07
98	95¼	Treas. 8pc Cv 1990 ‡‡	96½	.....	[illegible]	14.10
98	96	Treas. 10pcCv 1990	96	−⅛	[illegible]	13.92
93	87	Exch 2½pc 1990	92½	+⅛	[illegible]	10.89
101	98	Treas 11¾pc 1991	98¼	.....	[illegible]	13.60
93	89	Funding 5¾pc '87–91‡‡	92¼	.....	[illegible]	12.01
90	86	Treas. 3pc 1991	90	.....	[illegible]	10.56
100	95½	Treas 10pc Cv '91 ‡‡	95	−⅛	[illegible]	13.08
101	96	Exch. 11pc 1991	97	−⅛	[illegible]	12.73
94	91	Treas. 8pc 1991	91	.....	8.70	12.65
106	100	Treas 12¾pc 1992‡‡	100	.....	12.68	12.41
99	95	Treas 10pc 1992	95	−⅛	10.48	12.38
94	90	Treas. 8pc 1992 ‡‡	91	.....	12.34	9.38
100	96	Treas 10½pc Cv 1992‡‡	96	+⅛	10.88	12.20
85	82	Treas. 3pc 1992	84	−⅛	3.56	10.26
105	99	Exch. 12¼pc '92	100	.....	12.25	12.20
109	103	Exch 13½pc 1992	103	+⅛	13.06	12.02
94	90	Treas 8¾pc 1993	90	+⅛	9.11	11.86
100	95	Treas 10pc 1993‡‡	95	+⅛	10.48	11.68
108	101	Treas 12½pc 1993‡‡	102	+⅛	12.29	11.76
88	84	Funding 6pc 1993‡‡	85	.....	7.01	10.72
113	106	Treas 13¾pc 1993‡‡	106	+⅛	12.89	11.60
94	89	Treas. 8½pc 1994	90	+⅛	9.45	11.59
117	109	Treas 14½pc 1994‡‡	110	+⅛	13.17	11.42
113	106	Exch 13½pc 1994	106	+⅛	12.68	11.56
100	94	Treas. 10pc Ln. 1994‡‡	95	+⅛	10.51	11.40
110	103	Exch. 12½pc 1994	103	+⅛	12.10	11.54
96	91	Treas 9pc 1994‡‡	91	+⅛	9.85	11.32

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
108	101	Treas 12pc 1995	101	+⅛	11.77	11.46
79	72	Exch 3pc Gas 90–95	75	.....	3.99	8.80
101	95	Exch. 10¼pc 1995	95	+⅛	10.73	11.34
113	106	Treas 12¾pc 1995‡‡	106	+⅛	11.98	11.23
119	110	Treas. 14pc '96	111	+⅛	12.60	11.40
97	90	Treas. 9pc 1992–96‡‡	90	−⅛	9.91	11.06
126	111	Treas 15¼pc 1996‡‡	117	+⅛	12.93	11.24
117	108	Exch 13¼pc 1996‡‡	109	+⅛	12.13	11.19
101	94	Conversion 10pc 1996	94	+⅛	10.54	11.07
118	109	Treas 13¼pc 1997‡‡	110	+⅛	12.04	11.14
104	96	Exch 10½pc 1997	97	+⅛	10.80	11.05
95	88	Treas 8¾pc 1997‡‡	89	+⅛	9.81	10.84
128	118	Exch 15pc 1997	119	+⅛	12.59	11.26
100	93	Exch. 9¾pc 1998	93	+⅛	10.41	10.93

Over Fifteen Years

BRITISH FUNDS—Contd

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
103	93½	Conversion 9½pc 2005	94	+⅛	[illegible]	10.25
111	101	Exch. 10½pc 2005	101	+⅛	[illegible]	10.24
125	114	Treas. 12½pc 2003–05	114	+⅛	[illegible]	10.43
90	82	Treas. 8pc 2002–06‡‡	82	+⅛	[illegible]	10.17
118	108	Treas. 11¾pc 2003–07	108	+⅛	[illegible]	10.46
96	86	Treas 8½pc 2007 ‡‡	87	+⅛	9.7[illegible]	10.01
134	122	Treas. 13½pc '04–08	122	+⅛	[illegible]	10.38
101	91	Treas. 9pc 2008 ‡‡	91	+⅛	[illegible]	9.94
93	91	Treas. 9pc 2008 B	91	+⅛	[illegible]	9.95
92	83	Treas 8pc 2009	83	+⅛	[illegible]	9.90
102	91	Conv 9pc Ln 2011 ‡‡	92	+⅛	[illegible]	9.86
68	61	Treas. 5½pc 2008–12‡‡	61	+⅛	[illegible]	9.64
89	80	Treas. 7¾pc 2012–15‡‡	80	+⅛	[illegible]	9.81
132	118	Exch. 12pc '13–'17	119	+⅛	[illegible]	9.88

Undated

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
45	40	Consols 4pc	40	+⅛	9.96	—
40	35	War Loan 3½pc‡‡	35	+⅛	9.87	—
70	60	Conv. 3½pc '61 Aft	61	+⅛	5.70	—
41	31	Treas. 3pc '66 Aft	31	+⅛	9.42	—
30	25	Consols 2½pc	25	+⅛	9.88	—
29½	24	Treas. 2½pc	24	+⅛	10.03	—

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or −	(1)	(2)
112	103	Tr. 2pc '92‡‡(97.8)	112	−⅛	2.82	3.96
105	94	Do. 2 '94 (102.9)	104	−⅛	2.83	3.41
155	139	Do. 2pc '96(67.9)	154	.....	2.99	3.39
130	118	Do 2½pc '01(78.3)	129	+⅛	3.46	3.71
127	115	Do. 2½pc '03(78.8)	125	+⅛	3.55	3.78
131	117	Do. 2pc '06(69.5)	129	+⅛	3.57	3.76
123	110	Do. 2½pc '09(78.8)	120	+⅛	3.58	3.75
128	114	Do. 2½pc '11(74.6)	125	+⅛	3.57	3.73
106	95	Do. 2½pc '13(89.2)	104	+⅛	3.55	3.69
115	101	Do. 2½pc '16(81.6)	112	+⅛	3.51	3.66
112	100	Do. 2½pc '20(83.0)	110	+⅛	3.47	3.59
95	84	Do. 2½pc '24‡‡(97.7)	93	+⅛	3.43	3.54

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1989: 112.3 and for October 1989: 137.5.

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
100	99	N'wide Anglia 12pc 2.1.90	99	.....	12.84	15.44
100½	98	Do 12pc 29.1.90	99	.....	12.63	15.33
100	98	Do. 12pc 26.2.90	99	.....	12.78	15.30
100	98	Do. 12pc 19.3.90	99	.....	12.97	13.36
100	98	Do 13½pc 23.4.90	99	.....	13.48	15.32
100	98	Do. 13pc 14.5.90	99	.....	13.12	15.26
100	98	Do. 13pc 4/6/90	99	.....	13.78	13.20
100	99	Do 14pc 2.7.90	99	.....	14.37	13.10
100	98	Do. 13½pc 23.7.90	99	.....	13.76	15.08
100	98	Do. 13pc 13.8.90	98	.....	13.45	14.99
100	98	Do. 13½pc Bds 3.9.90	98	.....	13.53	14.94
107½	98	Do 3½pcIL Ln 2021	107½	.....	4.30	4.47
107½	99	Do. 4.25pcIL '24	106	.....	4.30	4.28

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
47	43	Met. Wtr. 3pc 'B'	45	.....	6.67	10.56

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or −	Div % Gross	Red. Yield
50	40	Greek 7pc Ass.	50	.....	3.50	17.00
50	40	Do. 6pc 28 Stb Ass.	50	.....	3	16.00
50	40	Do 4pc Mixed Ass.	50	.....	2	14.00
80	65	Hung. '24 Ass.	80	.....	2.75	13.97
139	125	Hydro Quebec 15pc 2011	125	−⅛	15.00	11.73
128	113	Iceland 14½pc Ln 2016	113	−⅛	14.50	12.66
97	90	Ireland 9¾pc '91–96	90	+⅛	10.80	11.75

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

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AMERICANS – Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
15½	847p	Hasbro Inc 50c	15½	.....	16c	–	0.7
57½	32¾	Honeywell $1½	52	+1	$2.75	–	5.5
22½	15¼	Houston Inds.	22½	+¼	$2.96	–	8.3
76	60	IOM Corpn $1¼	64½	+2	$4.84	–	4.8
60p	45p	Image Storage/R.Sys.Ic.	50p	.....	–	–	–
32¼	18¼	Ingersoll-Rand $2	29	–⅛	$1.20	–	2.5
33¼	22½	Lockheed Crpn. $1	25	+¼	$1.80	–	4.6
22	12	Lone Star Inds $1	12	–	$1.90	–	10.0
27	17½	Louisiana Land 15c	26½	+¼	$1.00	–	2.4
20½	11½	Lowe's 50c	19	+¼	48c	–	1.5
28	15	Manuf. Hanover $1	22	+	$3.28	–	9.0
22	15	Merrill Lynch $1	16	–	$1.00	–	3.7
24¼	19¼	Molex Inc.	22	+	3.2c	–	–
30½	18	Morgan (JP) $2½	27¼	.....	$1.66	–	3.9
28	24¼	Morris (Philip)	27½	+	$1.13	–	2.6
54¼	36¼	NYNEX $1	54¼	+¼	$4.36	–	5.0
44p	16p	N'wide Legal Serv.	20p	.....	–	–	–
24	18¼	PHH Corp.	23¼	+¼	$1.16	–	3.2
259p	167p	Pacific Agr.	179p	–6	–	–	–
28½	19	Pacificorp $3¼	28¼	–¼	$2.76	–	5.9
30¼	16	Pacific Telesis 10c	30¼	.....	$1.88	–	3.9
22	15¼	Pall Corp. 25c	21¼	–¼	48c	–	1.4
55¼	39	Pennzoil 83 1/3c	52	+½	$3.00	–	5.6
42¼	28	Quaker Oats $5	39	+	$1.40	–	2.2
32½	23½	Rep NY Corpn $5	30	+½	$1.28	–	2.7
16	11	Rockwell Intl. $1	13¼	–¼	78c	–	3.7
29½	22	Sears, Roebuck 75c	24½	–¼	$2.00	–	5.2
37½	21	Southwestern Bell $1	57	+¼	$2.60	–	4.4
27	17	Sun Co. Inc. $1	25	+	$1.80	–	4.4
31¼	22	TRW Inc. 62½c	30	+¼	$1.72	–	3.6
24	14¼	TW Services $5	21	–¼	–	–	–
40	26¼	Tenneco $5	38	+½	$3.04	–	5.0
35	28	Texaco $6.25	35½	+	$3.00	–	5.4
28	18	Texas Instr. $1	21½	+	72c	–	2.0
117	58	Time Inc. $1	85½	–¼	$1.00	–	0.7
19	13	TRINOVA Corp.	14	.....	s68c	–	2.9
26	16	USX $1	24½	+1	$1.40	–	3.7
321p	126p	Unilab	300p	–2	–	–	–
36½	22¼	Utd. Technologies	32	–	$1.60	–	3.1
168p	121p	Utilitech Inc.	164p	+7	–	–	–
48¼	31½	US West	47¼	+½	$3.76	–	5.0
43½	22	Waste Management $1	42½	+¼	60c	–	0.9
20½	13½	Whirlpool $1	18	–¼	$1.10	–	3.7
24	16	Whitman Corp.	17	–	31.02	–	3.6
46	28¼	Woolworth $3½	39	–	$1.88	–	3.0

CANADIANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
186p	129p	ABM Gold Corp	158p	–6	–	–	–
26p	4½p	Abbot Energy Corp.	26p	.....	–	–	–
21¼	902p	Amer. Barrick Res.	19	–¼	–	–	–
39¼p	10½p	Armeno	31p	–4	–	–	–
33¼p	8½p	Augmitto Expln.	11p	.....	–	–	–
18½	12	Bk. Montreal	18¼	.....	$2.12	–	6.3
10¼	655p	Bk. Nova Scot.	920p	+3	92c	–	5.4
828p	599p	BC Gas $1	824p	+3	60c	–	4.0
24¼	17	BCE	24¼	+¼	$2.44	–	3.3
17	12¼	Brascan	15	–¼	68c	–	3.2
228p	108p	Breakwater Res.	170p	–11	10c	–	3.2
18¼	11¼	Can.Imp Bank	10¼	+¼	$1.24	–	3.7
15¼	997p	Can. Pacific	13	+¼	76c	–	2.8
41½	37	Do. 4pc Deb £100	37	.....	4%	–	10.8
588p	374p	Central Capital "A"	542p	–6	–	–	–
585p	340p	Corona Corp	556p	–12	–	–	–
461p	228p	Cons TVX Min	419p	–19	–	–	–
775p	492p	Derlan Inds	501p	+1	11.75c	–	1.3
12½	751p	Echo Bay Mines	15¼	–½	$0.07	–	0.3
572p	336p	ECD Corp	384p	+1	–	–	–
417p	243p	Gandalf Techs. Inc.	355p	.....	–	–	–
186p	122p	Granges Inc.	140p	–10	–	–	–
27½p	3p	Gt Pacific Res.	4p	–1½	–	–	–
903p	651p	Gulf Canada	837p	–5	52c	–	3.4
17¼	10¼	Hawker Sid Can	11	–¼	$1.08	–	4.2
20¼	11½	Hudson's Bay	17¼	.....	60c	–	1.9
34½	23	Imperial Oil	32½	.....	$1.80	–	3.0
23	14¼	Inco	17	+¼	s$0.80	–	2.8
290p	102p	Madeleine Mines	198p	–2	–	–	–
193p	98p	Muscocho Expln.	129p	–5	–	–	–
126p	60½p	Nevada Goldfields	77p	+5	–	–	–
593p	456p	Nova Corp of Alberta	478p	.....	42c	–	4.8
14½	10	Rio Algom	12¼	.....	86c	–	3.7
27	17¼	Royal Bk. Can.	27½	+½	$2.20	–	4.3
47	33¼	Seagram	55	+½	US$1.40	–	1.6
700p	348p	Sechura Inc.	645p	+2	–	–	–
112p	73p	Sonora Gold Corp	104p	.....	–	–	–

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

1989 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
235	185	Yorklyde 10p	228	.....	†9.0	3.5	5.3	6.9
18	17	Youghal	17	.....	-	-	-	14.4

TOBACCOS

1989 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
943	447	BAT Inds.	825	+7	†30.0	2.8	4.8	12.2
£111½	£99¾	Do. 12¼pc.Ln. '03/08	£100	[illegible]	Q12¼%	28.4	12.2	-
685	425	Rothmans 12½p	665	+10	†12.3	4.0	2.5	11.3

TRANSPORT

1989 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
387	264	BAA	382	.....	†9.0	3.5	3.1	11.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

1989 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's
150	90	Sungei Besi SM1	125	.....	070c	1.4	13.4
90	90	Tanjong 15p.	90	.....	-	-	-

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −
Albany Inv 20p.... y	88	+1
Craig & Rose £1.. y	630	.....
Finlay Pkg. 5p.... y	64	.....
Holt (Jos) 25p..... y	1338	-5

IRISH

Stock	Price	+ or −
Con. 8¾% Ln. 1991	£96⅞	.....
9pc Cap Ln. 1996	£96¼	.....
Fin. 13% 97/02	£116	.....
Arnotts	400	.....
Carrol (P.J.) ..... y	148	.....
Hall (R. & H.)	195	.....
Heiton Hldgs. ..... y	90	+3
IRG	230	.....
United Drug	140	-3

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5¼
BAT	67
BOC Grp.	44
BTR	37
Barclays	40
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons.	42
Comm Union	48
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	40
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	29
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds.	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	29
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Stock	p
Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Stock	p
Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petm	9
Premier	10½
Shell	37
Tuskar Res.	12
Ultramar	28½

Mines

Stock	p
Lonrho	23
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar steady as sterling rises

Sterling moved bigber yesterday as currency dealers reacted favourably to remarks hy Mr John Major, the UK Chancellor of the Exchequer, Mr John Major, that he wanted a firm exchange rate along with tight fiscal and monetary policy in order to combat inflation. The US dollar remained steady as markets waited for the ralease of the Federal Reserve's Tan Book today and the November employment report on Friday.

Mr Major's remarks on Monday came after the London markets had closed and it was left to traders in New York and Tokyo to push sterling higher. By the time London opened yesterday most of the gains made in reaction to Mr Major's comments had already occurred.

Dealers said Mr Major's comments that he was not prepared to let a fall in sterling undermine the government'a anti-inflationary stance reminded the markets that interest rates could yet be raised. Furthermore, Mr Major was perceived to have delivered a strong performance before MPs managing to tread through the minefield of questions on exchange rate policy and at the same time receiving a favourable press reaction.

Most analysts, however, said Mr Major had not made any fundamental change in policy and that his teatimony reflected merely a difference of etyle to his predecessor, Mr Nigel Lawson. "He reminded the markets that high interest rates are here to stay, and that was supportive. Bnt he said nothing new and told us what we were already aware of," said Mr Steve Hannah, head of research at NatWest Capital Markets.

Indeed, the foreign exchange market yesterday was unwilling to push sterling above its opening levels because of the ruling Conservative Party'a leadership election contest, the result of which was not available until trading books had been passed to New York. Sterling closed in London at DM2.7900, compared with DM2.7850 on Monday. It finished at $1.5705 from $1.5635; Y225.75 from Y224.50; FFr9.5275 from FFr9.5100; and SFr2.4975 from SFr2.5025. Sterling's index closed at 86.4, up 0.4.

The dollar was little changed in quiet trading as dealers waited for the release of the Tan Book, a compilation of economic surveya from tba regional Federal Reserve banks. Analysts said the report is likely to indicate a slower pace of economic growth.

But the Fed is unlikely to sanction an easing in monetary policy before the all-important November employment report. Analysts also expect the jobs data to point to weaker growth. "The Tan Book will be setting the scene for the employment report," said an economist with a leading West German bank.

The dollar closed at DM1.7760 from DM1.7805 on Monday. It was also at Y143.70 from Y143.55; at SFr1.5965 from SFr1.5995; and at FFr6.0650 from 6.0800. Its index closed unchanged at 68.9.

£ IN NEW YORK

Dec.5	Latest	Previous Close
£ Spot	1.5680-1.5690	1.5625-1.5635
1 month	0.84-0.83pm	0.895-0.88pm
3 months	2.39-2.36pm	2.52-2.49pm
12 months	8.38-8.28pm	9.00-8.90pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.5	Previous
8.30 am	86.4	86.0
9.00 am	86.3	86.0
10.00 am	86.3	86.1
11.00 am	86.2	86.0
Noon	86.2	86.1
1.00 pm	86.2	86.1
2.00 pm	86.3	86.0
3.00 pm	86.3	86.0
4.00 pm	86.4	86.0

EURO-CURRENCY INTEREST RATES

Dec 5	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅞-14¾	15⅛-14⅞	15¼-15⅛	15⅜-15¼	15⅛-15	14¾-14⅝
US Dollar	8¾-8⅝	8⅝-8½	8⅝-8½	8⅝-8½	8½-8⅜	8⅛-8
Can. Dollar	12⅝-12⅛	12⅝-12⅛	12⅛-11⅞	12⅛-11⅞	12-11⅞	11⅞-11⅝
D. Guilder	8⅝-8½	8⅝-8¼	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½
Sw. Franc	8¼-8	8-7¾	8⅜-8⅛	8¼-8	8⅛-8	8-7¾
Deutschmark	8-7¾	8-7¾	8¼-8	8¼-8⅛	8⅝-8½	8⅝-8¼
Fr. Franc	9⅞-9⅝	10⅛-9⅞	10¼-10⅛	10⅜-10¼	10⅜-10¼	10⅜-10¼
Italian Lira	12-10	13-12	13-12½	13-12¾	13-12¾	13-12¾
B. Fr. (Fin)	9¾-9½	9¾-9⅝	10-9¾	10-9¾	10-9¾	10-9¾
B. Fr. (Con)	9⅞-9⅝	9⅞-9½	10-9⅝	10-9⅝	10-9⅝	10-9⅝
Yen	6⅝-6½	6⅝-6½	6⅝-6⅝	6⅝-6⅝	6⅝-6⅝	6⅝-6⅝
D. Krone	12⅝-11⅞	12⅝-12⅛	12-11¾	11⅞-11⅝	11⅝-11⅜	11⅝-11⅜
Asian $Sing	8⅝-8¼	8⅝-8¼	8⅝-8⅝	8⅝-8½	8⅝-8½	8⅝-8

Long term Eurodollars: two years 8⅝-8⅜ per cent; three years 8⅝-8⅜ per cent; four years 8½-8⅜ per cent; five years 8⅝-8¼ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5625-1.5725	1.5700-1.5710	0.87-0.85cpm	6.57	2.51-2.48pm	6.35
Canada	1.8195-1.8275	1.8260-1.8270	0.48-0.39cpm	2.86	1.31-1.18pm	2.73
Netherlands	3.14¼-3.15¼	3.14¼-3.15¼	1⅞-1⅝cpm	6.67	5-4⅜pm	6.20
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	10.82½-10.87½	10.85-10.86	3¼-2⅜orepm	3.59	9½-8⅞pm	3.39
Ireland	1.0555-1.0630	1.0620-1.0630	0.42-0.37pm	4.46	0.95-0.85pm	3.39
W. Germany	2.78¼-2.80	2.78¾-2.79¾	1¾-1⅝pfpm	7.26	5-4¾pm	6.99
Portugal	242.80-244.45	243.40-244.40	20-101cdis	2.98	71-229dis	-2.46
Spain	179.90-180.85	179.95-180.25	2-8dis	-0.33	7-20dis	-0.30
Italy	2052-2061	2052-2053	5-3lirepm	2.34	11-8pm	1.85
Norway	10.65¼-10.70¼	10.69-10.70	2⅞-2⅜orepm	2.95	7¼-6¾pm	2.53
France	9.52¾-9.55½	9.52¾-9.53¾	4-3⅞cpm	4.96	10½-10⅛pm	4.33
Sweden	9.99-10.03	9.99½-10.00½	2⅞-2⅝orepm	3.30	6½-6pm	2.50
Japan	224½-226¼	225¼-226¼	1¾-1⅝ypm	8.97	4¾-4½pm	8.19
Austria	19.65-19.74	19.69-19.72	11-9⅞gropm	6.36	30½-28pm	5.92
Switzerland	2.49¼-2.52	2.49¼-2.50¼	1⅝-1½cpm	7.21	4⅝-4½pm	7.31
ECU	1.3710-1.3740	1.3730-1.3740	0.50-0.47cpm	4.24	1.36-1.31pm	3.89

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 58.70-58.80 Six-month forward dollar 4.97-4.92cpm 12 months 8.99-8.89cpm

CURRENCY RATES

Dec.5	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.21538	1.37248
U.S Dollar	7	1.28947	1.14064
Canadian $	12.46	1.50120	1.32759
Austrian Sch.	6½	16.1390	14.3469
Belgian Franc	10¼	48.2681	42.7597
Danish Krone	10½	8.89283	7.90063
Deutsche Mark	6.00	2.29139	2.03604
Neth.Guilder	7.00	2.59183	2.29667
French Franc	10¼	7.85158	6.95105
Italian Lira	13½	1691.46	1499.37
Japanese Yen	3¾	185.168	164.024
Norway Krone	8	8.76711	7.78029
Spanish Peseta	-	147.688	131.401
Swedish Krona	9½	8.19974	7.28012
Swiss Franc	6.00	2.05864	1.83186
Greek Drach.	20½	N/A	186.414
Irish Punt	-	N/A	0.772005

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Dec.4

CURRENCY MOVEMENTS

Dec.5	Bank of England Index	Morgan** Guaranty Changes %
Sterling	86.4	-24.8
U.S Dollar	68.9	-9.4
Canadian Dollar	105.5	+2.2
Austrian Schilling	109.1	+11.4
Belgian Franc	108.6	-4.1
Danish Krone	107.5	+2.4
Deutsche Mark	117.3	+24.2
Swiss Franc	106.8	+14.8
Guilder	113.5	+16.5
French Franc	101.9	-13.7
Lira	100.3	-18.5
Yen	133.7	+67.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for Dec.4 .

OTHER CURRENCIES

Dec.5	£	$
Argentina	1018.05-1027.05	650.00-655.00
Australia	2.0040-2.0065	1.2795-1.2805
Brazil	1148.95-1155.30	7.3300-7.3680
Finland	6.5630-6.5750	4.1920-4.1940
Greece	253.50-258.60	162.20-164.20
Hong Kong	12.2445-12.2570	7.8125-7.8145
Iran	112.10*	71.60*
Korea(Sth)	1044.65-1061.45	670.70-675.90
Kuwait	0.46720-0.46900	0.29860-0.29930
Luxembourg	58.55-58.65	37.30-37.40
Malaysia	4.2365-4.2470	2.7050-2.7070
Mexico	4163.05-4180.05	2655.00-2665.00
N. Zealand	2.6470-2.6530	1.6890-1.6920
Saudi Ar.	5.8735-5.8785	3.7505-3.7515
Singapore	3.0480-3.0530	1.9450-1.9470
S. Af (Cm)	4.0670-4.0770	2.6015-2.6030
S. Af (Fn)	6.1490-6.2720	3.9215-4.0000
Taiwan	41.10-41.20	26.20-26.25
U.A.E.	5.7505-5.7555	3.6720-3.6730

*Selling rate

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5625-1.5725	1.5700-1.5710	0.87-0.85cpm	6.57	2.51-2.48pm	6.35
Ireland†	1.4750-1.4810	1.4785-1.4795	0.32-0.27cpm	2.39	1.20-1.10pm	3.11
Canada	1.1620-1.1640	1.1625-1.1635	0.34-0.38cdis	-3.72	1.04-1.10dis	-3.68
Netherlands	2.0025-2.0160	2.0035-2.0045	0.02pm-0.01cdis	0.03	0.08-0.13cdis	-0.21
Belgium	37.30-37.55	37.30-37.40	2.50-4.50cdis	-1.12	11.00-15.00dis	-1.39
Denmark	6.91-6.93½	6.91-6.91½	1.77-2.07oredis	-3.33	5.05-5.55dis	-3.05
W. Germany	1.7750-1.7875	1.7755-1.7765	0.08-0.06pfpm	0.47	0.09-0.06pm	0.17
Portugal	155.30-155.65	155.30-155.40	90-140cdis	-8.88	300-400dis	-9.01
Spain	114.90-115.35	115.05-115.15	60-70cdis	-6.78	190-200dis	-6.78
Italy	1309½-1315½	1306¾-1307¼	4.60-5.20liredis	-4.49	14.50-15.50dis	-4.58
Norway	6.80¼-6.82¾	6.80¼-6.81¼	1.85-2.20oredis	-4.01	6.10-6.50dis	-3.70
France	6.06½-6.10	6.06¼-6.06¾	0.80-0.90cdis	-1.68	3.05-3.25dis	-2.07
Sweden	6.37-6.39	6.37¼-6.37¾	1.63-1.88oredis	-3.30	6.00-6.35dis	-3.87
Japan	143.45-143.90	143.65-143.75	0.27-0.25ypm	2.17	0.66-0.63pm	1.80
Austria	12.55-12.58	12.55¼-12.55¾	0.10pm-0.45gdis	-0.17	0.50-1.90dis	-0.38
Switzerland	1.5865-1.6090	1.5890-1.5900	0.09-0.06cpm	0.56	0.15-0.10pm	0.31
ECU	1.1405-1.1440	1.1430-1.1440	0.23-0.22cpm	2.36	0.73-0.70pm	2.50

Commercial rates taken towards the end of London trading.† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.40-37.50.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.5	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.7597	+0.71	+0.71	±1.5424
Danish Krone	7.85212	7.90063	+0.62	+0.62	±1.6419
German D-Mark	2.05853	2.03604	-1.09	-1.09	±1.1019
French Franc	6.90403	6.95105	+0.68	+0.68	±1.3719
Dutch Guilder	2.31943	2.29667	-0.98	-0.98	±1.5019
Irish Punt	0.768411	0.772005	+0.47	+0.47	±1.6689
Italian Lira	1483.58	1499.37	+1.06	+1.06	±4.0815
Spanish Peseta	133.804	131.401	-1.80	-1.80	-

Changes are for Ecu, therefore positive change denotes a weak currency Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Dec.5	£	$	DM	Yen	F Fr.	S Fr.	H FL	Lira	C $	B Fr.
£	1	1.571	2.790	226.0	9.528	2.498	3.148	2053	1.827	58.60
$	0.637	1	1.776	143.9	6.065	1.590	2.004	1307	1.163	37.30
DM	0.358	0.563	1	81.00	3.415	0.895	1.128	735.8	0.655	21.00
YEN	4.425	6.951	12.35	1000.	42.16	11.05	13.93	9084	8.084	259.3
F Fr.	1.050	1.649	2.928	237.2	10.	2.622	3.304	2155	1.918	61.50
S Fr.	0.400	0.629	1.117	90.47	3.814	1	1.260	821.9	0.731	23.46
H FL	0.318	0.499	0.886	71.79	3.027	0.794	1	652.2	0.580	18.61
Lira	0.487	0.765	1.359	110.1	4.641	1.217	1.533	1000.	0.890	28.54
C $	0.547	0.860	1.527	123.7	5.215	1.367	1.723	1124	1	32.07
B Fr.	1.706	2.681	4.761	385.7	16.26	4.263	5.372	3503	3.118	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 748 Puts 330. Previous day's open int. Calls 8277 Puts 5012

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE £/$ OPTIONS £25,000 (cents per £1)

Strike Price	Calls-settlements Dec	Calls-settlements Jan	Puts-settlements Dec	Puts-settlements Jan
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 0 Puts 0. Previous day's open int. Calls 241 Puts 16

LIFFE EURODOLLAR OPTIONS $1m points of 100%

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 200 Puts 150. Previous day's open int. Calls 5121 Puts 3115

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 2250 Puts 700. Previous day's open int. Calls 60808 Puts 49411

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%; U.S. TREASURY BILLS (IMM) $1m points of 100%; SWISS FRANC (IMM) SFr 125,000 $ per SFr; PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1); JAPANESE YEN (IMM) Y12.5m $ per Y100; DEUTSCHE MARK (IMM) DM125,000 $ per DM; THREE-MONTH EURODOLLAR (IMM) $1m points of 100%; STANDARD & POORS 500 INDEX $500 times index; POUND-$ (FOREIGN EXCHANGE); IMM-STERLING $ per £

Contract	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%; US TREASURY BONDS 8% $100,000 32nds of 100%; 6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%; THREE MONTH STERLING £500,000 points of 100%; THREE MONTH EURODOLLAR $1m points of 100%; THREE MONTH EUROMARK DM 1m points of 100%; THREE MONTH ECU ECU 1m points of 100%

Contract	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev.
Dec	2343.0	2345.0	2311.0	2304.0
Mar	2388.0	2388.0	2358.0	2348.0
Jun	2426.0			2386.0

Estimated volume 3607 (5644)
Previous day's open int. 32167 (32030)

EUROPEAN OPTIONS EXCHANGE

Series		Vol	Last	Vol	Last	Vol	Last	Stock
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS : 64,406
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

Key rate eases

UK money market rates eased a shade yesterday as sterling reacted positively to remarks on Monday by Mr John Major, the Chancellor, that he wanted a firm exchange rate. Mr Major's comments prompted the key three-month interbank rate to ease slightly yesterday to 15⅛-15¼ per cent, from 15¼-15⅜ on Monday. The money markets were quiet yesterday, while in the futures markets, the March short sterling contract was less actively traded, and closed slightly higher on the day.

The Bank of England initially forecast a money market shortage of around £1bn and an early round of bill offers was invited, at which it bought £314m of bills and revised its forecast shortage to £1.1bn. The Bank's purchases included £35m band 1 Treasury bills at 14⅞ per cent, and £22m bank bills, also in band 1 at the same rate. In band 2, it bought £256m bank bills at 14¾ per cent.

During the morning, the Bank purchased an additional £398m bank bills in band 2 at 14¾ per cent. Further liquidity was injected during the afternoon when the Bank bought £184m of bank bills. This included £75m in band 1 at 14⅞ per cent and £109m in band 2 at 14¾ per cent. Finally, late assistance of around £10m was provided.

The Bank's money market forecast included a take-up of Treasury bills and maturing assistance which were expected to drain £31m, Exchequer transactions a further £971m, and a rise in the note circulation £5m. The shortage was slightly reduced, though, by bankers balances £5m above target.

In Frankfurt call money rates at 7.70-7.75 per cent were barely changed as the market awaited the Bundesbank's new securities repurchase allocation. Analysts said they expected the Bundesbank to replace a DM21.2bn allocation which expires today. Yesterday the Bundesbank said it would allocate repurchase funds for 35 days at a fixed rate of 7.3 per cent.

In New York the Federal Reserve did not conduct open market operations, despite expectations that it might add temporary liquidity using customer repurchase agreements. But analysts said the Fed's absence did not have any monetary policy implications. Federal Funds were trading at 8⅜ per cent at the usual time for the Fed's market operations, unchanged from Monday.

UK clearing bank base lending rate 15 per cent from October 5

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.5) 3 months US dollars		6 months US Dollars	
bid 8⅝	offer 8¾	bid 8⅝	offer 8⅝

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime) — Treasury Bills and Bonds

Prime rate	10½	One month	[illegible]
Broker loan rate	9¾	Two month	[illegible]
Fed funds	8⅜	Three month	[illegible]
Fed funds at intervention	8⅜	Six month	[illegible]
		One year	[illegible]
		Two year	[illegible]
		Three year	7.71
		Four year	7.75
		Five year	7.71
		Seven year	7.79
		10-year	7.81
		30-year	7.88

Dec.5	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.00
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.50
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

LONDON MONEY RATES

Dec 5	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell); one-month 14⅝ per cent; three months 14⅝ per cent; Bank Bills (sell): one-month 14⅝ per cent; three months 14⅝ per cent; Treasury Bills; Average tender rate of discount 14.5739 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 30 1989. Agreed rates for period December 26 1989 to January 25, 1990, Scheme I: 15.07 p.c. Schemes II & III: 16.43 p.c. Reference rate for period Nov.1 1989 to November 30, 1989, Scheme IV&V: 15.148 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15¼ from December 1, 1989; Bank Deposit Rates for sums at seven days notice 6 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11¼ per cent from Oct 9, 1989. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

	%		%		%
ABN Bank	15	Clydesdale Bank	15	NatWestminster	15
Adam & Company	15	Comm.Bk.N.East	15	Northern Bank Ltd	15
Allied Trust Bank	15	Co-operative Bank	*15	Norwich Gen. Trust	15
Allied Irish Bank	15	Coutts & Co	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Cyprus Popular Bk	15	Provincial Bank PLC	16
Associates Cap Corp	14	Dunbar Bank PLC	15	R. Raphael & Sons	15
Authority Bank	15	Duncan Lawrie	15	Roxburghe G'rantee	15½
● B & C Merchant Bank	15	Equatorial Bank plc	15	Royal Bk of Scotland	15
Bank of Baroda	15	Exeter Trust Ltd	15½	Royal Trust Bank	15
Banco Bilbao Vizcaya	15	Financial & Gen. Bank	15	● Smith & Williamson Secs.	15
Bank Hapoalim	15	First National Bank Plc.	16	Standard Chartered	15
Bank Credit & Comm	15	● Robert Fleming & Co.	15	TSB	15
Bank of Cyprus	15	Robert Fraser & Ptnrs.	15½	United Bk of Kuwait	15
Bank of Ireland	15	Girobank	15	United Mizrahi Bank	15
Bank of India	15	● Guinness Mahon	15	Unity Trust Bank Plc	15
Bank of Scotland	15	HFC Bank plc	15	Western Trust	15
Banque Belge Ltd	15	● Hambros Bank	15	Westpac Bank Corp.	15
Barclays Bank	15	Hampshire Trust Plc	15½	Whiteaway Laidlaw	15
Benchmark Bank PLC	15	Heritable & Gen Inv Bnk.	15	Yorkshire Bank	15
Brit Bk of Mid East	15	● Hill Samuel	§15		
● Brown Shipley	15	C. Hoare & Co.	15		
Business Mtge Bank PLC	15½	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
		Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		

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JOTTER PAD

CROSSWORD

No.7,108 Set by FETTLER

ACROSS
1 Refined kinds have cheer for the tearful (14)
10 Sporting Post, delivered around half the Granite City (9)
11 Sight often improved with plurality (5)
12 Blow's essence infused doctor of music (7)
13 Certain to retreat into chum's study (7)
14 Meal without a starter won't satisfy this man (5)
16 Being jealously watchful – as urge directed, pasha returned (5-4)
19 EEC all out? Reforms needed for this system (9)
20 Excursion for wee Sarah (5)
22 Rugby fanatic shown by this national side (7)
25 Form committee and sit (7)
27 Bubbly? Reims local fizz for the most part (9)
28 Conveyed with no sign of hesitation. Scorched in fact! (5)
29 Old bikes' worth, now measured in halfpence (14)

DOWN
2 A doctor, superior and clean-cut, transports patients (9)
3 Went boldly, although suffering dread (5)
4 Line a chaise in a way that provides a comfy seat (4,6)
5 Choir leader goes to mass – for a song? (5)
6 Bury has established social advantages (9)
7 Seconds show obvious faults (5)
8 Cast the runes, letter by letter (7)
9 A rascal I battered for starters (8)
15 Rubbish, untidy, is redistributed as a round mass (9)
17 Here's a bird or summit (9)
18 Aging gold instead of silver (8)
19 'Ark to panic that envelops the listener (7)
21 Produces profits (6)
23 Wina region prepared for bad weather, we hear (5)
24 In mega-romances there's spicy inspiration (5)
26 Not being uniform, it's micro-fit perhaps (5)

Solution to Puzzle No.7,107

WORLD STOCK MARKETS

AUSTRIA [illegible]

BELGIUM/LUXEMBOURG [illegible]

DENMARK [illegible]

FINLAND [illegible]

FRANCE [illegible]

FRANCE (continued) [illegible]

GERMANY [illegible]

GERMANY (continued) [illegible]

ITALY [illegible]

ITALY (continued) [illegible]

NETHERLANDS [illegible]

NORWAY [illegible]

SPAIN [illegible]

SWEDEN [illegible]

SWITZERLAND [illegible]

SOUTH AFRICA [illegible]

JAPAN [illegible]

AUSTRALIA [illegible]

AUSTRALIA (continued) [illegible]

HONG KONG [illegible]

SINGAPORE [illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

2pm prices December 5

Quotations in cents unless marked $. [illegible]

ƒ—No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Dec. 4	Dec. 1	Nov. 30	Nov. 29	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2753.63	2747.65	2706.27	2688.78	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.59	93.49	93.51	93.58	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1217.64	1202.35	1170.70	1167.50	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	228.18	227.80	224.91	223.09	228.18 (4/12)	181.84 (24/2)	228.18 (4/12/89)	10.50 (8/4/32)

♦Day's High 2772.18 (2763.87) Low 2731.02 (2705.42)

STANDARD AND POOR'S	Dec. 4	Dec. 1	Nov. 30	Nov. 29	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	351.41	350.63	345.99	343.60	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	401.52	400.67	395.51	392.67	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	32.64	32.74	32.40	32.44	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	194.07	193.66	191.30	190.25	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	374.66	375.58	373.84	373.64	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	458.28	457.10	456.09	455.81	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec 1	Nov 24	Nov 17	year ago (approx.)
Dow Industrial Div. Yield	3.87	3.97	3.93	3.79

	Nov 29	Nov 22	Nov 15	year ago (approx.)
S & P Industrial div. yield	2.96	2.98	2.98	3.21
S & P Indl. P/E ratio	14.59	14.51	14.40	12.64

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Texas Util	4,619,600	35½	+ ½
Mattel	3,676,600	18⅞	+ 1¼
USX Corp	2,385,400	37¼	+ 3
Chevron	2,321,700	70⅞	+ ½
Occ Pete	2,259,500	30⅜	+ ⅛
IBM	2,026,900	99¼	+ 2⅛
LA Gear Inc	1,823,600	38⅛	+ 2½
Philip Morris	1,770,000	43⅞	+ ½
Pinnacle W Cap	1,664,900	5⅜	+ ½
Gas Elect Ind	1,470,700	63¼	+ ⅛

TRADING ACTIVITY

† Volume Millions	Dec 4	Dec 1	Nov 30
New York	150.360	199.200	153.200
Amex	12.209	13.103	12.894
NASDAQ	113.780	138.467	129.597
Issues Traded	1,975	1,979	1,967
Rises	805	1,004	832
Falls	696	509	622
Unchanged	474	466	513
New Highs	112	103	59
New Lows	46	38	49

CANADA TORONTO	Dec 4	Dec 1	Nov 30	Nov 29	1989 HIGH	1989 LOW
Metals & Minerals	3366.52	3357.11	3353.24	3362.41	3919.2 (1/9)	3207.5 (3/1)
Composite	3952.66	3958.65	3942.77	3946.65	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2018.00	2012.59	1999.76	1997.39	2069.68 (10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 5	Dec. 4	Dec. 1	Nov. 30	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1637.1	1646.4	1624.7	1611.6	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	802.6	820.7	814.1	804.8	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	429.43	426.20	416.37	415.36	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6564.47	6560.18	6551.89	6528.76	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	359.27	358.94	357.07	352.64	359.27 (5/12)	275.49 (27/2)
FINLAND						
Unitas General (1975)	626.3	626.6	616.4	603.3	815.8 (18/4)	580.8 (23/11)
FRANCE						
CAC General (31/12/82)	543.8	540.3	531.2	525.2	561.6 (11/10)	417.9 (4/1)
Ind. Tendance (30/12/88)	124.3	124.5	122.8	121.0	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	684.01	689.55	677.24	659.01	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	2018.8	2034.9	1996.6	1941.9	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1626.61	1634.31	1612.44	1577.43	1658.12 (11/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2764.44	2767.46	2756.90	2748.35	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1719.90	1712.58	1708.95	1700.38	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	667.96	670.21	667.27	664.91	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	37494.17	37303.87	37132.68	37268.79	37303.87 (4/12)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2850.82	2837.73	2819.63	2829.54	2837.73 (4/12)	2366.91 (6/1)
2nd Section (4/1/68)	3744.59	3731.32	3714.33	3709.21	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	263.8	262.3	259.3	256.9	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	202.5	201.4	199.1	197.2	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	632.42	628.93	623.27	622.16	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	(c)	(c)	(c)	(c)	1996.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1431.39	1426.13	1408.51	1411.28	1431.85 (12/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2088.04	2133.0	2120.0	2029.0	2149.0 (24/11)	1291.0 (15/2)
JSE Industrial (28/9/78)	2616.04	2608.0	2594.0	2569.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	884.12	891.13	898.77	906.33	1007.00 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	305.55	305.00	303.77	303.60	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	3977.0	3962.8	3999.6	4033.4	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	771.0	772.5	770.7	765.2	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	8701.15	8665.85	8931.28	9402.56	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	(c)	778.28	769.14	769.83	792.20 (21/11)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	555.0	552.5	550.5	555.0 (5/12)	487.6 (13/6)

**Saturday Dec. 2: Taiwan Weighted Price: (c) Korea Comp Ex. 896.34.

♦ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed, (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday December 5 1989

	Stocks Traded	Closing Prices	Change on day
Sumitomo Mt Ind	110.8m	923	+26
Kobe Steel	45.5m	855	+25
Nippon Steel	40.7m	847	+15
Tokyo Gas	38.7m	1,280	+20
Mitsui E&S	32.7m	1,000	+16
NKK	31.1m	862	+10
Hitachi Zosen	19.9m	935	+10
Onoda Cement	19.8m	1,220	+20
Kawasaki Stl	19.5m	807	+9
IHI	19.2m	1,570	+20

3pm prices December 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A—A—A —								
37½	22¼	AAR	.48	1.3	23	386	36⅞	36½	36½	− ⅜
9⅝	8⅞	ACM s	1.01	11.		253	9½	9⅜	9⅝	
11⅝	10¾	ACMIn	1.28	11.		356	11⅝	11¼	11¼	
16¾	6	ACM M	n1.31	12.		313	8	8¾	8¾	− ⅛
11½	10	ACM Sc	1.26	11.		949	11⅞	11⅞	11⅞	
9⅝	8½	ACMSp	1.01	11.		475	9⅝	9¼	9¼	
10	11½	AL Lab	.18	.7	17	27	16½	10¾	16⅞	+ ⅛
4¾	3¼	AMCA	.12e	3.4	23	20	8½	3½	8½	+ ⅛
6½	4¼	AM Intl			9	1914	4½	6 4⅛	4⅛	+ ⅛
28½	19	AM In pf	2	10.		27	19⅞	19	19⅞	
107¼	51¼	AMR			6	4120	46	66⅞	66½	
37	20	ANR pf	2.67	10.		7	26⅞	25⅞	20⅞	+ ½
6½	6⅝	ARX				94	8⅞	3⅝	3⅝	− ¼
27½	37⅞	ASA	3a	6.6		1402	54⅞	63⅞	53⅞	
30⅞	15½	AVX	.24	.8	20	950	35	29⅞	29⅞	− ¼
70⅞	48	AbtLab	1.40	2.8	13	2859	70	39¼	69⅞	− ¼
19¼	12¾	Abitibi g	1			24	12⅞	10¾	12⅞	+ ⅜
13	7⅞	AcmeC	.40	4.2	18	81	8¾	9½	9⅞	
9¾	6⅞	AcmeE	.32	3.9	11	24	8½	8¼	8¼	− ⅛
30½	32	Acuson			22	764	36⅞	33¼	60¼	− ⅝
18⅝	12⅞	AdaEx	2.06e	13.		125	n16¼	15⅞	15⅞	
10⅝	6½	Adobe				186	12⅛	12	13	− ⅛
21⅝	12⅞	Adob pf	2.40	11.		8	21¼	21	21	− ⅛
16½	7¼	AMD				1176	7⅞	7½	7⅛	− ⅛
30	20½	AMD pf	3	10.		17	24¼	23¾	24⅞	
10⅛	6¼	Advest	.16	1.8	13	46	8	6¼	8	
62½	46	AetnLf	2.76	4.5	10	5209	32	31⅛	31⅛	+ ½
14	11¼	AlfPb	.64	3.0		307	12⅛	12	13	− ⅛

Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
41⅞	29⅛	RiteAid	.82	2.2	16	433	38⅝	37½	37½	- ⅛
7-16	⅛	RvrOak				69	3-16	3-16	3-16	
12¾	8⅝	Robtsn				45	11⅞	11½	11½	- ⅛
38	24	vjRobins			21	318	u38½	37⅞	38⅛	+ ⅛
22	19⅞	RochG	1.50	6.9	13	606	u22⅛	21⅞	21⅞	+ ⅞
45¾	24⅛	RochTl	s1.42	3.4	10	423	42⅛	42	42⅛	+ ⅛
22⅛	18⅛	RckCtr	1.88	8.8	10	206	21⅞	21⅛	21⅛	+ ⅛
27⅞	20⅞	Rockwl	.78	3.8	7	1885	21	20⅝	20⅝	- ⅛
8	4⅞	RodRen				14	6⅛	6⅛	6⅛	
37½	31	RoHaas	1.20	3.8	11	280	32⅛	32	32	- ⅛
37⅞	16⅞	Rohr			25	344	19⅞	19⅝	19⅝	+ ⅛
13¾	9½	RollinE	.08	.6		4524	13⅛	12⅝	12⅝	
21	15⅞	Rollins	.54	3.0	18	101	18⅛	17⅞	18	+ ⅛
48	28⅛	Rorer	.84	1.9	21	2848	44⅛	43⅞	44⅛	+ ⅛
10⅛	4⅞	Rowan				2531	10	9⅝	10	+ ⅛
25⅞	23¼	RBSct pr				349	u25½	25¼	25¼	- ⅛
71½	55¾	RoylD	s3.35e	4.7	7	3075	u72¼	71⅝	72	+ ¾
16	8⅝	RoyInt	.20e	2.1	12	62	10	9⅝	9⅝	- ⅛
15	7⅞	Royce	.51e	5.4		78	9½	9⅜	9½	
37⅞	24⅛	Rubmd	.62	1.8	24	1079	35⅛	34⅞	35	- ⅛
21¼	14⅛	RussBr	.40	2.6	16	16	15⅝	15½	15½	- ⅛
18	10⅞	RussTg	.20	1.8	46	13	11⅞	11¼	11¼	- ⅛
25⅞	15½	Russell	.28	1.2	10	180	23⅞	23⅛	23⅛	
31⅛	20⅛	Ryder	.60	2.8	24	679	21⅞	21½	21½	- ⅛
29½	19⅞	Rykoff s	.60	2.4	15	462	24⅝	23⅞	24⅝	+ 1⅛

NASDAQ NATIONAL MARKET

3pm prices December 5

AMEX COMPOSITE PRICES

3pm prices December 5

AMERICA

Dow edges lower despite advance in IBM

Wall Street

THE STOCK market was slightly lower in early afternoon trading yesterday, with no significant economic news to trigger activity and the focus mostly on Friday's November employment figures, *writes Janet Bush in New York.*

At 2 pm, the Dow Jones Industrial Average was off 7.26 at 2,746.37 in moderate volume of 96m shares.

The blue chip index had recorded a gain of about 7 points in mid-morning, encouraged by news of a restructuring at IBM, but it then slipped back. On Monday, the Dow had closed 5.96 up at 2,753.63, its highest level since the mini-crash of October 13.

The only excitement in the market yesterday was the announcement by IBM which also helped other technology issues. The company said that its restructuring plan included shedding at least 10,000 from its workforce, taking a fourth-quarter charge of about $2.3bn and a buy-back of up to $4bn of its common stock.

IBM's share price rose $1⅛ to $100⅞. Its share price had underperformed the broad market since the October 1987 Crash and, at yesterday's slightly improved levels, still stood below its lowest level of 1988. Among other technology issues, Compaq Computer rose $1⅛ to $90⅞ and Cray Research added $⅞ to $37⅛.

Outside the technology sector, there was little news of note. The Treasury bond market was virtually unchanged at midsession as dealers waited for fresh evidence of economic performance which might induce the US Federal Reserve to ease monetary policy.

There are two key events this week. First, the latest Tan Book of economic reports from regional Federal Reserve banks is due to be published today. This is used as a guide to setting monetary policy in the Federal Open Market Committee.

Probably more important to the financial markets, however, will be Friday's release of November employment data. A jump in unemployment insurance claims reported last week could point to a weak set of employment figures on Friday, with estimates for a rise in the non-farm payroll of 130,000 to 150,000, compared with the gain of 233,000 in October.

Both stock and bond markets are unlikely to break out of their narrow trading ranges until there is a clear sign of a shift on Fed policy. The Fed Funds rate remains resolutely at about 8¼ per cent.

Among featured issues was UAL, the parent company of United Airlines, which rose another $2⅛ to $181⅞ on continuing speculation that a new buy-out plan is in the pipeline. AMR also gained further ground, adding $⅛ to $66⅞.

Mattel, the toys manufacturer added $⅛ to $19⅞ after saying that it expected fourth-quarter sales to be 25 per cent higher than a year ago.

Lin Broadcasting rose $⅜ to $122⅞ in over-the-counter trading. The board recommended a revised offer from McCaw Cellular Communications which could signal the end of a six-month takeover battle. McCaw's A shares gained $1⅛ to $40⅞.

Aluminium Co of America jumped $1⅛ to $75⅞ after Shearson Lehman Hutton issued a strong buy recommendation on the stock.

On the American Stock Exchange, International Banknote fell $⅞ to $4⅛ after US Banknote, which had offered $7 a share in a tender offer, said that it did not expect to get financing for the bid.

Canada

LIGHT trading left Toronto stocks mixed by midsession in the absence of any significant features. Investors stayed on the sidelines, waiting for the release of November US jobs figures on Friday.

The composite index rose 4.2 to 3,956.9, with 12m shares changing hands.

Gold shares rose slightly as the London bullion price held close to the day's highs, although below Monday's close.

ASIA PACIFIC

Scramble to participate produces further record

Tokyo

ROBUST demand for equities kept share prices on the upswing yesterday, and took the Nikkei average to yet another record in lively trading, *writes Michiyo Nakamoto in Tokyo.*

The overnight advance on Wall Street joined encouraging prospects to trigger an early 235-point rise in the Nikkei, which later rose further to an intraday high of 37,548.46. After dipping to a low of 37,326.90, the index closed 190.20 higher at 37,494.17.

Advances outnumbered declines by 529 to 390 while 204 issues were unchanged. Turnover swelled to 1.4bn shares from 1.2bn and the Topix index of all listed shares gained 13.09 to 2,890.82. In London, the ISE/Nikkei index slipped 2.07 to 2,153.23.

The equity rally fed on itself as investors scrambled to buy their share of it. Even those who doubted its durability a *few days ago admitted* that the market's stellar performance since the worldwide October plunge has made it difficult to deny that Tokyo was in for a good, solid run. "If we don't participate, we're in trouble," said one Japanese salesman. "Even fund managers who don't want to buy, have to."

October 13 reminded Japanese investors of the volatility of foreign investment, said Mr John Courtney at WI Carr. "Since that watershed, [Japanese] investors have allocated much larger proportions of their capital to the home market." This shift of funds coincided with historic developments in Eastern Europe, which raised hopeful expectations for the world economy in the new decade.

This year has also brought individual investors record bonuses, which have provided the market with a strong boost in demand. The balance of supply and demand was helped further by a lack of any large new issue, such as the third and significantly large tranche of Nippon Telegraph and Telephone last year. At the same time, US interest rates were easing and Japanese interest rates, while still a source of concern, were clearly peaking.

Yesterday there was further encouraging news in the form of a survey, published by a leading economic daily, which indicates that the ruling Liberal Democratic Party (LDP) has recovered enough popularity to tide it over the coming national elections to the Lower House of the Diet. The LDP suffered an unprecedented loss during elections to the Upper House last summer.

Heavily capitalised issues dominated investor interest, and Tokyo Gas and Onoda Cement were the only issues on the top 10 volumes list that were not steels or shipbuilders. These two were said to be popular on the Ishikawajima Harima Heavy Industries (IHI) effect.

IHI has been rising on speculation surrounding its planned redevelopment of its land on Tokyo's waterfront. Its announcement yesterday that it would issue $500m in Eurodollar warrant bonds triggered interest in Tokyo Gas and Onoda Cement, which both own tracts of land in the same Toyosu area of the waterfront as IHI.

Among the big issues, Sumitomo Metal Industries topped the actives list with 110.3m shares, impressive by recent standards. It gained Y28 to Y893. Kobe Steel followed with 45.5m shares and rose Y25 to Y855. Nippon Steel was third with 40.7m shares, increasing Y15 to Y847.

Selective buying of low-priced issues led the OSE average in Osaka to its 11th record high of 38,602.20, up 89.66. Volume climbed to 118.5m shares from 107m on Monday. Kansai Electric Power added Y200 to Y5,280.

Roundup

ASIA PACIFIC markets had a mixed day, with Australia struggling to survive a steep decline in the bullion price.

AUSTRALIA was hit by the sharp fall in the gold price, but stable industrial and financial stocks prevented too heavy a drop in the All Ordinaries index, which closed 9.3 weaker at 1,687.1 after a 22-point rise on Monday.

Turnover picked up to 108m shares worth A$201m from Monday's 94m worth A$191m.

Mining stocks saw sharp losses as bullion traded briefly below US$400 an ounce, with Western Mining off 16 cents at A$8.92 as 2m shares changed hands.

Among cheaper golds, Poseidon lost 13 cents to A$2.53 and Dominion Mining 9 cents to A$1.63.

Bond Corp firmed 1 cent to 21 cents, while associated company Bond Media, target of a bid from Mr Kerry Packer, slipped 1 cent to 15 cents.

WESTERN Mining of Australia, which is to be listed on the Paris bourse on December 13, said it was likely to increase production of gold, nickel and oil steeply in the next six months due to firmer international commodity markets. Mr Hugh Morgan, managing director, told journalists in Paris that the current bullion price of around $400 was "handsome."

Banks were supported by approaching dividend payments and expectations that falling interest rates would help their profits.

SINGAPORE was driven higher by institutional buying and blue chips performed well, notably in the marine sector where good earnings forecasts excited interest. The Straits Times Industrial index rose 5.96 to 1,431.39 in higher turnover of 67m shares worth S$160m against Monday's 45m and S$111m.

Singapore Airlines foreign rose 30 cents to S$20.50, Jurong Shipyard gained 25 cents to S$5.50 and Keppel added 20 cents to S$6.35.

TAIWAN regained a little ground on bargain-hunting in a volatile session, the weighted index rising 55.2 to 9,701.15 after a fall of nearly 10 per cent over the past three sessions. Volume recovered to NT$32bn from Monday's NT$30bn.

SEOUL fell sharply as investors remained pessimistic about the market outlook. The composite index was 7.11 lower at 884.12, taking its losses to 22 points in the past four days.

HONG KONG was little changed in quiet trading, with turnover remaining low, at HK$573m and the Hang Seng index off 3.09 at 2,764.44.

Elections reinforce Brazil's sense of unease

John Barham on the economic, political and corporate reasons for current volatility

FEW investors in Brazilian equities are likely to forget 1989. Prices rose almost fourfold in dollar terms during the first five months, only to come crashing down in June when Mr Naji Robert Nahas, Brazil's leading speculator, defaulted.

Now, in another spasm, share prices have lost all the weight they managed to gain in the months following the Nahas affair. In November, the Sao Paulo Exchange's Bovespa index of 67 shares dropped 34.5 per cent in dollar terms.

There has been a slight recovery in the past few days, taking the index close to its end-1989 level; but that changed yesterday when the Bovespa fell 4.5 per cent to 31,687.

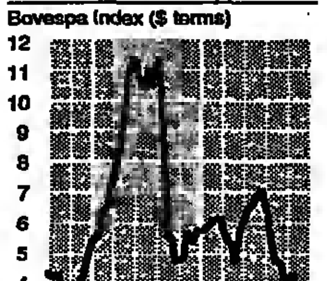
Yet again, Brazil's stock market has lived up to its reputation as one of the world's most volatile bourses. As always, there are many explanations for the latest market swing; but there is a consensus that the final stages of the country's first free presidential elections in 29 years have added considerably to the usual unease over the state of the economy.

Voters go to the polls on December 17. Although Mr Fernando Collor de Mello, the centre-right candidate, is well ahead in the opinion polls, the market still fears that an 11th hour shift in voter intentions may win the election for Mr Luis Inacio Lula da Silva of the left-wing Workers Party (PT). Analysts are certain that the market would collapse immediately if the PT won.

However, some market watchers think the election's importance has been overestimated. Mr Paulo Possas, an asset manager, says: "The main factor is economic, not political. Interest rates are over 2 per cent a day and shares just can't keep up with that."

Brazil: Sao Paulo

Bovespa Index ($ terms)



Source: Brazilian Securities (UK)

The Central Bank sent a shudder through the market last Friday, when it set interest on government paper in December at 66 per cent. Mrs Maria Luiza Barenguer, an analyst at Brasilpar, an investment company, says: "There is a rising fear of hyper-inflation, which the market had almost forgotten about."

The prospect of a wrenching economic slowdown in the new year has added to investors' trepidation, and a disappointing performance by leading companies has darkened sentiment still further.

At corporate level, Petrobras, the national oil company, Banco do Brasil, the state-owned commercial bank group, and Paranapanema, a leading mining company, have all done badly in recent months.

The three companies now account for 43 per cent of the Bovespa index. Petrobras faces crippling losses this year, as does Banco do Brasil. Paranapanema, which exports nearly *all of Brazil's tin, mined at* phenomenally wealthy Amazon mines, has been hit hard by falling prices. In November, its shares fell 58 per cent in dollar terms.

Mr Henrique Molinari of RMC, a Sao Paulo brokerage house, says this would be an ideal time to buy Brazilian shares. He recommends companies scorned by most players: "Petrobras and Paranapanema shares may never be this cheap again," he maintains. "Their shares are selling for only a fraction of their considerable real asset values."

Stockbrokers, too, have entered a period of depression. Trading volumes are weak. On Monday, the Sao Paulo exchange turned over a mere US$18m – one-sixth of the volumes seen earlier this year.

Tighter regulations designed to curb speculation have also hit brokers hard. The share options market, which reopened a month ago, barely exists. Volumes there are running at just 0.09 per cent of total market turnover, compared with 30 to 40 per cent before the Nahas affair.

SOUTH AFRICA

THE WEAKER bullion price tipped Johannesburg gold shares lower, but losses were restricted by a lower financial rand. Vaal Reefs lost R8 to R409. Platinum issues followed golds down, with *Impala off R1 at R67.50.*

EUROPE

Tired leaders attract profit-taking

LEADING bourses had a busy session, ending mixed to lower, as France lost its grip on early gains and West Germany pulled in the profit-takers, *writes Our Markets Staff.*

PARIS ran out of steam after an early boost from better-than-expected September trade figures. The OMF 50 index closed 0.71 lower at 531.82 and the CAC 40 index was up 0.17 at 1,939.26, and trading remained reasonably active at about FFr3bn worth of shares.

The main feature was Suez, which saw a block of 900,000 shares put through by one broker before it emerged that Chiyoda Mutual Life Insurance of Japan had taken a stake of 0.84 per cent, pushing its holding to just over 1 per cent.

The bank said the deal had been done with its agreement; Suez eased FFr1.50 to FFr426.50. "The Japanese as a nation are much more confident about France than they are about Germany," said a dealer.

Elsewhere, stocks in the oil sector were strong, Raffinage jumping FFr9 to FFr170 and Géophysique up FFr39 at FFr899. BP France gained FFr7.50 to FFr150.50 in active turnover, having fallen behind when the sector rose last week following price and production agreements by Opec.

Cérus, the French holding company of Mr Carlo De Benedetti, lost FFr18 to FFr416 amid speculation over whether the Italian financier might want to raise cash in his power struggle over the Mondadori publishing group.

FRANKFURT saw widespread profit-taking after its four-day rally; but volume stayed high, there was a recovery from midsession lows and there were indications that the market was prepared to rise on good news.

The DAX index, which opened 16.22 lower, finally fell 7.70 to 1,634.31 after a 4.46 drop to 684.01 in the FAZ in midsession. Volume eased, but it was still high at DM7.4bn against DM8.8bn on Monday.

TODAY'S Frankfurt bourse session will start 30 minutes later as a mark of respect to Deutsche Bank chief executive Mr Alfred Herrhausen, for whom a memorial service is to be held.

Volkswagen, which said that it was planning to set up a joint venture with the leading East German car manufacturer, rose against the trend, adding DM11.90 to DM499.90, just below its DM500 resistance level.

The electrical group AEG jumped DM17 to DM283 on talk of a large buy order; but Mannesmann closed DM7.50 lower at DM321 on specific profit-taking, after a three-day rise of DM60.50 on its telecommunications prospects.

MILAN was hit by higher mutual fund redemptions and frustration at the suspension of shares related to both the Mondadori power struggle, and Ferruzzi's sale of its stake in La Fondiaria. The Comit index fell 2.25 to 667.96 in volume at about Monday's L170bn.

Italian mutual funds recorded net redemptions of L255bn in November, slightly up from October's L244bn. However, observers noted that the poor result was mainly due to a rise in net redemptions from L52bn to L219bn by fixed-income funds, with, therefore, more positive implications for the equity market.

AMSTERDAM enjoyed strong gains in some international stocks, but the CBS tendency index eased 0.1 to 187.5. Akzo, the chemical stock, added Fl 1.70 to Fl 133.40 on expectations of a *substantial* book profit from its sale of an 85 per cent stake in Barmag, the West German machinery maker.

ZURICH succumbed to interest rate worries again, and the Crédit Suisse index fell 4.0 to 626.5 in very light trading. A highly unusual feature was the appearance of a foreign company, Volkswagen, in Zurich's top 10 active stocks. It had run second in the Frankfurt list, in turnover of DM858m.

MADRID was treading water in low volume, affected by public holidays today and on Friday. But interest continued in the food and construction sectors, with Tabacalera up 9 points to 824 per cent of par. The stock has a high international profile, having been badly hit in the October downturn and recently showing a strong recovery.

STOCKHOLM edged up in hesitant trading, with the Affärsvärlden General index 3.4 higher at 1,157.4.

Saab's free B shares picked up SKr2 to SKr245 amid continued speculation about deals with Fiat or Volvo. Free Bs in Volvo added SKr3 to SKr395 after falling earlier on news that its link with Renault of France would be more limited than expected.

BRUSSELS focused on holding company Société Générale de Belgique and on rising steel makers, although most stocks finished little changed.

Société Générale rose on news that it planned to merge Acec-Union Minière and MHO, *two of its non-ferrous metals* units, in order to maximise tax benefits. It gained BFr55 to BFr3,400 in active trading.

HELSINKI attracted foreign interest, which helped free shares rise in active trading before today's holiday. Union Bank of Finland free Cs gained FM1.5, or 5.4 per cent, to FM29.5. The Unitas all-share index slipped 0.3 to 626.3, as interest rates rose again.

COPENHAGEN was barely changed after the removal of the speculative element from the financial sector, with the bourse index up 0.33 at 359.27. This followed Monday's news of the merger of Privatbanken, which fell DKr8 to DKr313; SDS, DKr4.50 down at DKr313; and Andelsbanken, DKr10 lower at DKr366.

VIENNA showed more life after its recent listless performance. The bourse index added *9.13, or 2 per cent, to 449.3 as* foreign interest returned.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY DECEMBER 4 1989						FRIDAY DECEMBER 1 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	148.76	+1.9	141.09	126.72	+1.8	5.36	146.05	138.27	124.44	160.41	128.28	144.39
Austria (19)	151.44	+1.8	143.61	140.15	+1.6	1.73	148.83	140.91	138.03	172.22	92.84	98.61
Belgium (63)	148.42	+0.2	140.74	137.07	+0.1	4.05	148.05	140.17	136.92	148.42	125.58	133.57
Canada (122)	150.22	+0.1	142.45	126.67	−0.1	3.21	150.08	142.09	128.77	154.17	124.67	122.91
Denmark (36)	234.57	+1.0	222.43	220.30	+0.9	1.43	232.21	219.84	218.31	234.57	165.35	157.96
Finland (26)	124.54	+1.1	118.10	109.60	+1.1	2.57	123.14	116.58	108.43	159.16	118.63	137.52
France (126)	144.57	+1.2	137.09	137.88	+1.1	2.70	142.86	135.25	136.38	144.57	112.57	110.64
West Germany (96)	109.16	+2.1	103.53	101.06	+2.0	2.06	106.99	101.29	99.12	109.16	79.56	87.35
Hong Kong (48)	118.63	+0.2	110.59	117.00	+0.2	4.86	116.38	110.18	116.76	140.33	88.41	111.01
Ireland (17)	167.34	+0.3	158.68	159.27	+0.2	2.78	166.86	157.99	158.88	167.34	125.00	131.71
Italy (97)	92.68	+0.4	87.89	90.81	+0.3	2.51	92.31	87.39	90.50	98.73	74.87	86.35
Japan (455)	195.89	+0.3	185.75	177.75	+0.6	0.46	195.36	184.97	176.61	200.11	164.22	190.93
Malaysia (36)	208.09	+0.1	197.32	216.87	+0.2	2.45	207.79	196.73	216.44	209.22	143.35	139.45
Mexico (13)	289.99	+1.6	274.98	841.80	+1.8	0.62	284.91	269.73	827.03	326.61	153.32	172.54
Netherland (43)	135.80	+1.3	128.77	124.46	+1.2	4.28	134.10	126.96	123.00	135.80	110.63	109.50
New Zealand (18)	75.97	+0.3	72.04	68.42	+0.3	5.22	75.78	71.73	68.19	88.18	62.64	68.34
Norway (24)	180.98	+0.5	171.62	167.29	+0.5	1.63	180.00	170.41	166.38	198.39	139.92	130.34
Singapore (26)	167.59	+1.8	158.91	150.40	+1.5	2.00	164.96	156.17	148.18	170.62	124.57	118.49
South Africa (60)	176.68	+1.2	167.54	161.16	+1.0	3.79	174.67	165.36	149.73	176.68	115.35	125.80
Spain (43)	159.32	+0.7	151.07	138.62	+0.5	3.78	158.26	149.84	137.88	169.75	143.14	149.21
Sweden (35)	169.01	−0.8	160.27	159.44	−0.9	2.15	170.41	161.34	160.89	188.94	138.45	140.44
Switzerland (64)	92.18	−0.2	87.41	91.40	+0.2	2.07	92.35	87.43	91.18	94.16	67.81	79.18
United Kingdom (304)	146.68	−0.4	139.09	139.09	−0.4	4.43	147.27	139.43	139.43	158.41	133.28	137.71
USA (544)	142.59	+0.3	135.17	142.59	+0.3	3.26	142.17	134.59	142.17	146.29	112.13	111.92
Europe (993)	131.76	+0.5	124.94	123.64	+0.5	3.40	131.14	124.16	123.01	132.95	112.63	114.83
Nordic (121)	172.41	+0.2	163.48	155.56	+0.1	1.83	172.11	162.94	155.42	178.38	137.98	136.84
Pacific Basin (669)	191.03	+0.3	181.14	173.35	+0.7	0.70	190.44	180.29	172.19	194.72	160.44	165.75
Euro-Pacific (1661)	167.41	+0.4	158.75	153.47	+0.6	1.56	166.81	157.92	152.62	167.41	141.56	157.36
North America (666)	142.90	+0.3	135.51	141.53	+0.2	3.26	142.54	134.94	141.19	146.66	112.79	112.50
Europe Ex. UK (689)	121.42	+1.1	115.13	114.12	+1.0	2.72	120.15	113.75	112.97	121.42	95.30	100.41
Pacific Ex. Japan (213)	132.63	+1.2	125.95	119.11	+1.2	4.85	131.24	124.25	117.71	140.05	111.93	123.86
World Ex. US (1856)	166.98	+0.4	158.34	152.77	+0.6	1.63	166.38	157.52	151.85	166.98	141.49	155.86
World Ex. UK (2096)	158.23	+0.4	150.04	150.30	+0.5	1.94	157.60	149.20	149.45	158.23	136.98	139.14
World Ex. So. Af. (2340)	157.08	+0.3	148.93	149.22	+0.5	2.14	156.54	148.21	148.46	157.08	136.67	139.07
World Ex. Japan (1945)	138.79	+0.4	131.60	134.55	+0.4	3.38	138.25	130.89	134.02	140.43	114.51	113.59
The World Index (2400)	157.17	+0.3	149.04	149.23	+0.5	2.15	156.65	148.31	148.48	157.17	136.68	138.99

Latest prices were unavailable for this edition.

SECTION IV

FINANCIAL TIMES SURVEY

The banking sector is changing shape as the increased use of plastic cards for retail payments has altered the relationship between the banks and the shops. At the same time traditional barriers between markets and countries are crumbling. **David Barchard** reports

A world-wide revolution

THE PLASTIC cards revolution is under way all over the world in virtually every national market where retail banking is a significant force. Its importance both for providers of financial services and for the man in the street is virtually impossible to overstate.

As the use of plastic cards spreads through the retail payments market, long-standing relationships between banks, their personal customers, and retailers are being redefined. Barriers between different institutions, countries, and markets are disappearing. Some features of the banking landscape dating back to its origins (paper cheques and the routine visits to bank branches for example) look like being swept away by the changes.

During the second half of the late 1980s, each year has witnessed the unfolding of further dramatic changes in the market. The past twelve months in the UK have seen all the large UK banks dropping their exclusive arrangements with the international payments systems and becoming members of both Visa and MasterCard. They have seen Switch, an entirely new debit card mark, come close to establishing itself as a national debit card system. American Express, one of the oldest players in the plastic market, has moved into direct competition with the banks by launching Optima, its own up-market credit card.

EftPos UK, the electronic retail payments system created by the large banks, has finally got under way in three parts of the UK.

In Europe, the West German credit card market, relatively dormant for the last decade, has been unlocked by the decision last February of GZS, the German inter-bank payment system, to encourage its members to issue Eurocards aimed at a mass market, while KKB's decision to open up its cash machines to Visa cards may also signal another fundamental shift in the market.

In the US, Entree, the debit card launched jointly by Visa and MasterCard, seems to have become snagged up in anti-trust investigations. However MasterCard, the smaller of the two main payments systems, is once more moving back into profit after several difficult years. Discover, the credit card launched not by a bank but by a retailer, Sears Roebuck, has moved into profit and is looking seriously at market opportunities outside the US.

In eastern Europe and the Soviet Union, Visa, MasterCard, and American Express are co-operating with local banks to set up arrangements which are going beyond the tourist market to provide money transmission services for the population as a whole. There are those in the plastic cards industry who believe that the Soviet Union may yet leapfrog some of the banking systems of western Europe by establishing a national electronic payment network for retail financial payments.

In such a dynamic market place, the emphasis at present is on developing products and scrambling for market-share. Experience suggests that this is likely to be expensive. Barclaycard, the first UK credit card, took seven years to make its first profit. Some of the new entrants to the UK plastic cards market in the last 18 months will have to live for at least a year or two with fairly heavy losses on their new operations.

There are those who predict that by the time the plastic cards market settles down in the 1990s, there will have been quite a few casualties.

"The UK plastic cards market is a microcosm of the retail banking market as a whole. One of its most striking featu is its overcapacity. I expect to see considerable redistribution within the market in the next few years. There will certainly be quite a lot of pain, and probably we will end up with fewer players," says Mr Gerald Hawkins, assistant general manager for plastic card policy at Lloyds Bank.

The cartels which dominated the plastic card markets in their first two decades are dissolving with uncomfortable results for some players in the market. Access, the credit card consortium launched in the first half of the 1970s by three of the big four clearers, created Britain's and arguably Europe's largest and most sophisticated card processing operation in the 1980s.

The Access banks are in open competition with each other. Access remains as a credit card brand, but its parent company has been renamed Signet. Mr Tony Lee, its chief executive, has embarked on the challenging task of converting Signet into an independent processor.

Payment systems such as Visa have had to learn to live with a much larger membership and what is in some ways a reduced role in competitive markets. In countries such as West Germany, however, the banks are still learning the need to co-exist with the international payment systems.

Another frontier between banks and retailers is also shifting. Both banks and retailers want to move from traditional paper and voucher-based payment methods to payment at the point of sale using an electronic terminal. In the UK the number of these terminals is doubling annually. It stands at about 80,000.

However, the new technology is making irrevocable changes in the balance between retailers and banks. Retailers can perform an increasing number of financial services operations, while at the same time, they can take advantage of the growing competition between the banks to drive ever-harder bargains when new card-related services are being introduced.

These developments inevitably create anxieties on the banks' side: "If the new arrangements using plastic card technology are not economically viable, then one side will eventually have to drop out and the scheme may die. Alternatively there could be a nasty price jump which would cause chaos for everybody," says Mr Ron Williams, senior executive for card strategy at NatWest Bank, and one of the architects of the Switch debit card system, the part of the UK plastic card market where price competition has been fiercest in the last year.

The UK retailers have succeeded in steadily driving down the commission they pay on credit cards from about 2.5 per cent at the start of 1988 to under 1.75 per cent. The income the banks receive from retailers on card operations is shrinking. The banks thus have to look for new ways of restoring the profitability of the credit card market.

In the UK there is one obvious strategy: introduce annual charges on credit cards. Lloyds Bank is leading the way with a £12 annual fee for its Access card from January. So far none of the other large UK banks is following. Lloyds' competitors want to see how many customers will desert it in protest at the annual fee.

Nevertheless the other large banks look likely to introduce charges on their credit cards for the first time during 1990. Though credit card charges are usual almost everywhere outside the UK, they are a reminder that the plastic cards industry has important implications for the consumer and his rights. The banks' cash machines already generate more customer/bank disputes than any other issue.

However, the potential implications are much wider. A leading consumer expert, Mr Jeremy Mitchell, warns that many banks are imposing one-sided arrangements on their cardholders.

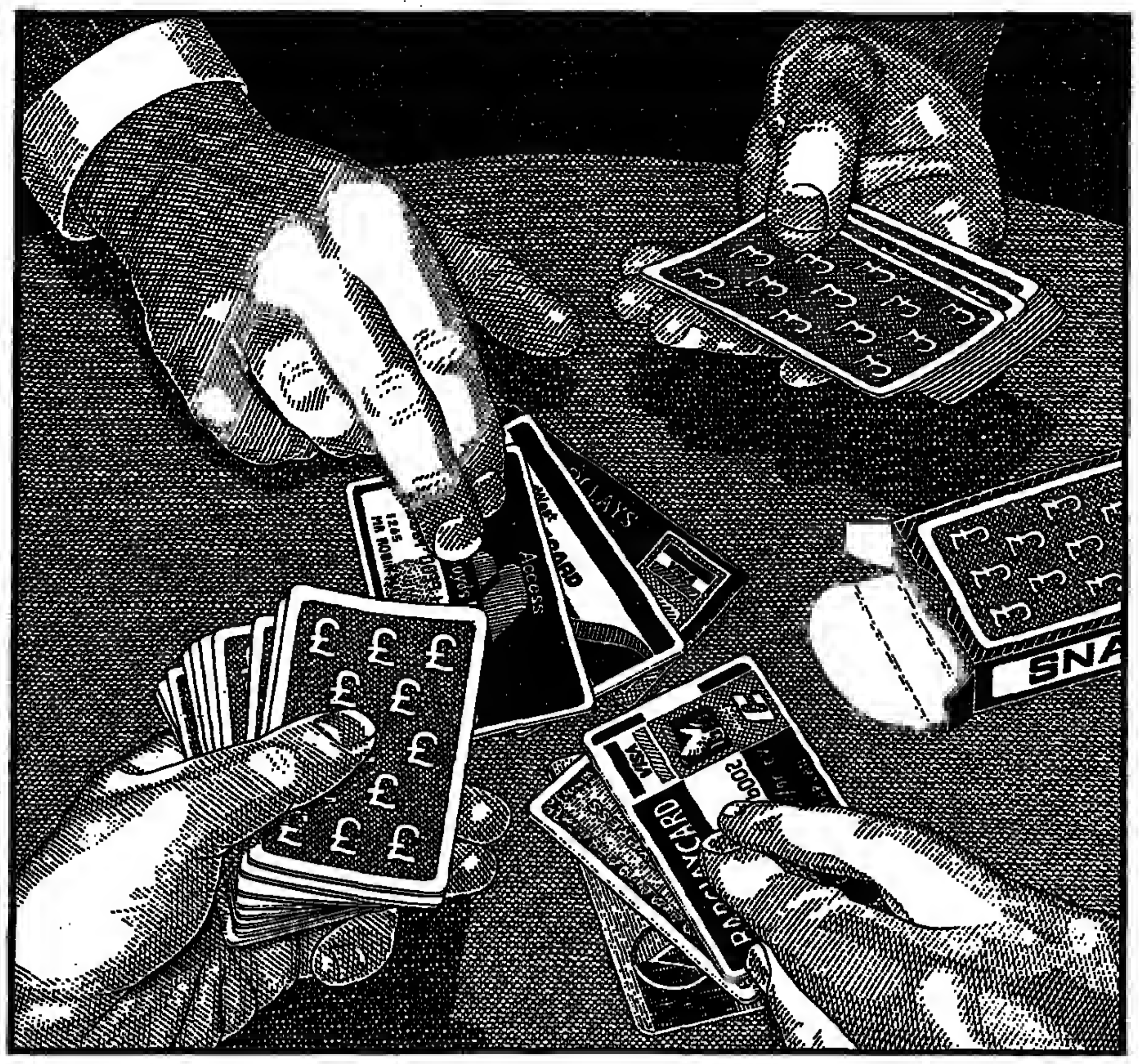
The need for caution does not stop at the need for protection against liability for fraud losses and improper use. Plastic cards, including the non-bank payment cards, produce a deluge of information about cardholders and their commercial behaviour, much of which they may not themselves be aware of. Information of this sort, and the ability to use it for marketing or other purposes, is readily available to card issuers.

A UK Monopolies and Mergers Commission enquiry into credit cards last year turned out to be embarrassingly far behind the market. The ground rules for a competitive market in which the rights of the individual are fully safe-guarded are being laid down in Brussels by the European Commission.

The plastic revolution is taking place globally. It does not stop at the frontiers of Europe or anywhere else. The pace of change in the industry in the 1990s is increasing. It may accelerate dramatically if the transition from magnetic stripe technology to the much more powerful new generation of smart cards with microprocessors built into them, occurs. There are signs that the change to smart cards may come sooner than expected.

The daily life of almost everyone living in the world's developed economies seems set to continue to benefit from the changes.

But for the banks, the plastic cards revolution requires strategic choices with consequences that may determine their fortunes over the early decades of the next century.



Robin Macfarlan

Plastic Cards

CONTENTS

Editorial Production: Phillip Halliday

The European scene

International ideas needed

THE EUROPEAN plastic card market is one of the best examples of heterogeneity in the Community's financial services business.

Some countries have achieved something close to full national EFT-POS coverage, but in others credit cards are rare and automated teller machines (ATMs) more of a novelty than a utility. The development of payment systems based on plastic cards has been undertaken on a national basis, with little thought for linking them internationally.

The only pan-European plastic card systems are those operated by MasterCard/Eurocard and Visa, the international card companies, and the eurocheque system which is backed by a plastic card.

However, even with these systems consumer use is substantially within national boundaries. The latest eurocheque figures, for example, show that 86 per cent of eurocheques are used domestically.

The one main shift towards a pan-European plastic card-based payments system is in the linking of ATM networks, through which tourists and business visitors can withdraw local currency.

The market in which the greatest changes have come over the past two years is West Germany, where the banks had discouraged credit lines which were not linked to bank accounts.

Furthermore, in West Germany the bulk of purchases, up to 90 per cent of volume, were made using cash. Moreover, the banks' customers were encouraged to use the giro network to make other payments, with the result that nearly three-quarters of non-cash payments are made in this form.

Similarly, the banks kept the number of ATMs low. Bank for International Settlements figures show that by the end of 1987 there were 8,417 inhabitants per machine, half the UK coverage of 4,544 per ATM.

In the past 18 months, though, a number of factors forced the West German banks to develop plastic card products, although it seems that the process is just beginning.

One force for change has been the penetration of Visa cards into the country. This was achieved first through a small operation bought by Spain's Banco Santander. Then non-banks signed up with Visa. ADAC, the automobile assistance organisation was the pioneer, and has been followed by retailers Akso Deutsche Kaufhaus and Kaufhof.

Alongside the Visa move, American Express has 700,000 cardholders. However, BIS figures show that there were barely 2m credit cards in circulation in West Germany by mid-1988, with end-1987 figures for retail usage at 2 per cent of all turnover.

In contrast, the 20m eurocheque cards which were held by individuals in the country could have provided the basis for a rapid deployment of debit cards, where credit could be linked to the customer's bank account. However, the scheme stalled during the summer following opposition from the retailers over charges, and the Bundeskartelamt over anti-competitive practices.

Following a rethink, the Gesellschaft für Zahlungssysteme (Payments Systems Company or GZS) turned to the Eurocard/MasterCard charge card, which is held by over 1.5m Germans, as the basis for a national debit card.

It seems likely that a debit card based around the Eurocard would be acceptable to most parties. This would also avoid the accusations of monopolistic practices levelled at transferring eurocheque cards to debit cards.

In France, the national EFT-POS system is among the main successes in the plastic card sphere. The French have installed an estimated 80,000 terminals. The BIS calculated that terminals had reached a penetration of one per 781 inhabitants at the end of 1987, compared to 4,369 in the UK at the same date. The UK figure for bank-installed machines is now closer to 1,700.

However, as with West Germany, the French banks have not focused on credit cards, and concentrated on issuing "cartes bancaires" of which about 45 per cent are affiliated to the Visa and Eurocard/MasterCard brand.

Over the past two years retailers have attacked the gap in the market for cards which offer revolving credit. In 1988 there were more than 18m cards operated in-house by retailers, outstripping the number of cartes bancaires.

The main protagonists in this have been Cofinoga, the finance subsidiary of Nouvelles Galeries, the retail chain, and Cetelem, which is owned by Compagnie Bancaire.

At the beginning of this year the two had issued about 2.6m credit cards and were using these as the means to sell further financial services to customers.

The Cetelem card, Aurore, which can be co-branded with a retail store's own logo, is a credit card which can be used in over 70,000 stores. The card has penetrated Belgium with a deal whereby the retailer GB-Inno-BM will accept Aurore.

The banks have begun to fight back, with Crédit Agricole creating a similar product to Aurore, but it is clear that the French retail card groups have a significant product in the form of revolving and term credit channeled through a plastic card.

The other area in which France is most advanced is smart cards. These cards, which make use of computer circuitry, were seen as a solution to a fraud problem that involved forging magnetic stripes. They have been issued in the north west of the country and the east Mediterranean area, with over 1m held by customers by mid-1988. Their usage has slowed as implementation of smart card terminals slackened.

The third main continental market, Italy, is still in a state of disarray over plastic cards, but there have been a number of initiatives during the past two years in the field of plastic cards.

Growth in the ATM network, which had been lagging behind other countries, was kick-started in 1983 with the Bancomat network. EFT-POS terminals began to emerge some two years later. There has been no coherent central plan for rolling out the network and the banks stockpiled EFT-POS terminals for some time. It seems that Italy is on the verge of a drive by individual banks to introduce an EFT-POS system. However, this is likely to be in a fragmented manner.

Spain, meanwhile, has shown most promise in plastic card networks, leaping from a cash payments system to EFT-POS and ATM networks, missing out cheques on the way.

Spain's terminal penetration, at some 520 inhabitants per machine, is on a par with France. The three ATM networks, Sistema 4B, Servired and Sistema 6000 are all compatible with Visa and MasterCard/Eurocard.

The progress by the banks in these two spheres has arguably stifled the need for retail store cards, in contrast to France.

The way forward for European plastic card payments systems may have been shown by the progress of the European Accord, an agreement put forward in 1987 to promote and create a bank-owned EFT-POS and payments network.

However, in April of this year participants in the scheme disclosed that factionalism had developed, causing the Accord to be frozen. The European Commission's DG 4 section was also investigating it for monopolistic practices.

After the summer Accord was reawakened, but with a focus on promoting reciprocal arrangements between banks and systems from the countries involved.

This competition-based progress has yet to percolate through all of the countries involved, and perhaps one of the sternest warnings about the banks' fate came from Mr Joao da Fonseca, the outgoing Visa Europe president.

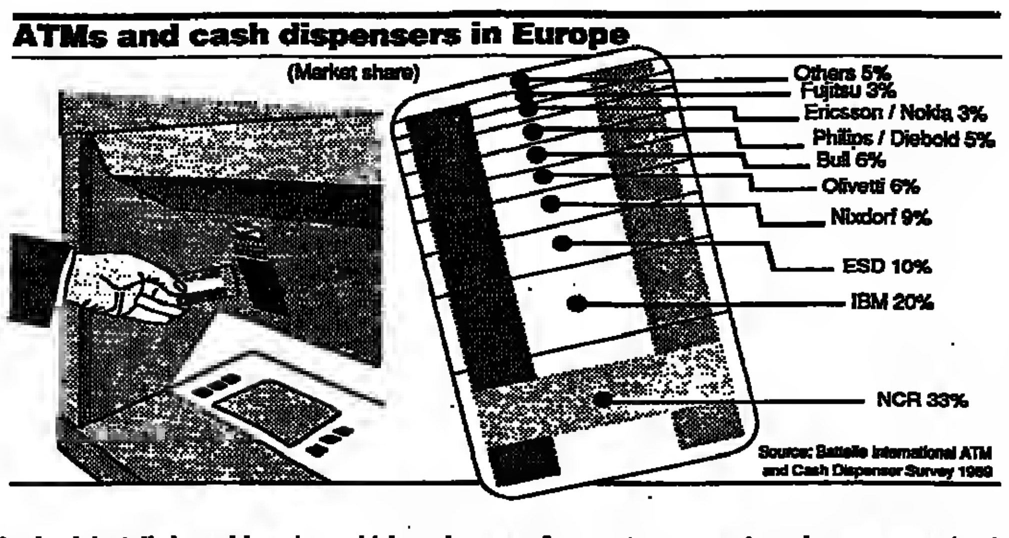
Speaking at a recent Financial Times conference he argued that the banks risk handing over their payments business to retailers. The French experience, and cracks in the West German façade show that retailers are likely to be some of the most interesting competitive forces in the plastic card business.

Mark Deller

The one main shift towards a pan-European plastic card-based payments system is in the linking of ATM networks

ATMs and cash dispensers in Europe

(Market share)



Source: Battelle International ATM and Cash Dispenser Survey 1989

Scandinavia

A lesson for the rest of Europe

THE HIGHLY developed retail banking business in Scandinavia holds some lessons for the rest of continental Europe, with three well-debated areas, *writes Mark Deller.*

The question of who pays for EFT-POS has been turned over in Norway and Denmark with the conclusion that the banks are paying for much of the system.

In Denmark, the banks were prepared to subsidise the launch of the country's "Dankort" which was intended to replace cheques. In Norway, the banks and retailers have agreed that the banks will help pay for the cost of basic systems, while retailers who want a more advanced terminal or on-line processing must pay for them.

Meanwhile in Sweden, the acrimony over fees payable by retailers stalled the EFT-POS programme for some time. The second question is that of system co-operation, where banks compete to offer services on their ATMs to their customers, but agree on reciprocal standards for basic transactions such as cash withdrawals.

In Finland and Norway this evolution has meant that the banks are competing more on services offered via ATMs, and on the card products they offer.

This area of differentiation, spawned derivative card products, such as affinity cards in Finland (over a year before the wave of charity cards hit the UK) and bank cards in Sweden where the customer can either charge a purchase to his bank account or separate credit card account.

Payments systems competition is hotting up

Visa troubled by onset of dualism

THESE ARE testing times for Visa and MasterCard, the international payment systems through which the banks' credit cards operate. As competition hots up in retail banking across the world, cartel-like arrangements are dissolving as individual banks scramble for market advantage.

Visa, the acknowledged front-runner, with more merchant outlets and a bigger card base than anyone else has not been immune from shocks.

Take its fortunes in the UK market, for instance. Early in 1988, Visa's star in the UK market seemed to be in the ascendant. With all new credit card issuers opting for Visa, questions were even being asked about the chances of survival for Access, the main rival brand.

Visa was also putting out feelers behind the scenes for a deal with the West German banks which would have made it the main West German credit card issuer. Meanwhile Visa debit cards were blazing a trail in the UK market.

A year later, the landscape has changed. In Britain, all the large banks are dual issuers and acquirers for both MasterCard and Visa. The arrival of dualism has been bumpy, leading to public quarrels between Visa and some of the new issuers about the society's rules.

Visa debit cards have lost ground to Switch, a new debit card branding devised by British banks for themselves. Switch, not Visa, now looks like becoming the national UK debit card.

The talks with the West German banks broke down and Visa is resigned to a long battle before it has any chance of dominance in the West German market.

Meanwhile, Mr Joao Ribeiro da Fonseca, the Portuguese banker, who established Visa's European, Middle East, and African operation has announced that he will retire early as chief general manager in the new year. His replacement will be a Frenchman, Mr Jacques Kosciusko, formerly head of retail banking at Credit Lyonnais.

Visa has notched up an impressive series of achievements in the British market in the last year. It has 44 members, 27 of them issuing cards.

"The number of Visa cards in the UK has gone up by 30 per cent in a year," says Mr Patrick Bowden, head of business development at Visa. "I think Visa UK has done particularly well in a mnch more competitive market."

Mr Bowden reckons that there is still plenty more room for market growth. At present about $65bn is spent each ear using Visa products in Europe, the Middle East and Africa. Mr Bowden calculates that the total reasonable available market (exclnding purchases for which a Visa card is not suitable) is abont $2,500bn and likely to rise to about $4,500bn by the end of the century.

Perhaps because of duality, which existed in several European countries before it reached Britain, something of the old fierceness has gone out of relations between Visa and its rivals MasterCard/Eurocard. However, at present at least there are no suggestions of a merger in the offing.

In December last year, Eurocard and Visa even announced something of a breakthrough. By the summer of 1990, a scheme will he in operation which would allow some pooling of cash machine facilities between the two networks, at least for those member banks which wished for it.

Since then however, progress has been slow. Visa says it has handed over technical documentation to allow the building of a communications interface between the two systems and is waiting for a response. "We still hope that some ATMs will be opened up to Visa in 1990," says Mr Bowden.

One of the 11 Visa banks in West Germany however has taken matters further. KKB, the German subsidiary of Citibank, has announced plans to open its 300 ATMs to Visa. The decision has enraged some other German banks because only Eurocheque cards can be used in German bank ATMs. Amazing as it sounds, in 1989 not one of Germany's 6,000 ATMs could be used by Visa cardholders.

Joao Ribeiro da Fonseca: established Visa in Europe

KKB's decision has left egg on the faces of German bankers who claimed that it was technologically more or less impossible to allow outside systems access to their ATMs.

It has also dealt a severe blow to Eurocard, the favoured hranding with most German banks. Because whila Visa cards will soon have a 300-strong ATM network thanks to KKB, MasterCard/Eurocard products will still not be any use for cash withdrawal anywhere in West Germany.

Meanwhile at MasterCard, where Mr Alex "Pete" Hart was installed as chief executive late in 1988, things seem to be looking up after several depressing years. Mr Hart has pulled MasterCard back into the hlack and expects to announce a profit early next year compared to a $11.4m loss in 1988.

Bowden: good year for Visa

He is also redesigning his card format rules to make the MasterCard mark more imposing (at present it is hard to see on some cards) and brighten up its red and ochre logo.

Mr Hart has spoken publicly of tackling the delicate issue of the MasterCard family's multiple branding in Europe, where the family divides into Access, Eurocard, and MasterCard. This is a touchy subject since many north European bankers, especially the Germans, are deeply attached to the idea of a strong Eurocard branding.

The question has become more urgent in the last year since GZS, the German Payments System, began encouraging its members to start issuing Eurocards to the mass market.

Mr Hart would like the Eurocard branding to turn into an upmarket travel and entertainment brand — but he is likely to face considerable opposition from the German banks who are MasterCard's most important international allies.

Mr Hart has also spent much of the year building up MasterCard's operations in tha Far East and in particnlar Japan.

In the UK a MasterCard/Eurocard forum has been established to provide a central reference point for MasterCard Banks. The group is chaired by Mr Derek Wanless of NatWest, who sits on the board of MasterCard International in New York.

Meanwhile, those on the look out for developments among the payments systems are on the watch out for the Japanese.

JCB, the Japanese credit card system, is poised to pull ahead of Diners Club in the next few years, and join the top league of credit card issuers. There are more than 14m JCB cards world-wide, compared to 6m Diners Club cards. Although Diners Club is still ahead with an annual transaction volume of $17.8hn, the lead is narrowing.

JCB has a network of 350,000 retailers outside Japan, most of them concentrated in the international cities where most Japanese tourists are to be found. Though this number is too small for a fully-fledged payments system, it is growing steadily. JCB has already dipped a toe in the US market. It looks more or less inevitable that it will try out a card prodnct in a European market, probably the UK.

"I think the parallel is with the Toyota," says one British banker. "Japanese credit cards shouldn't be under estimated because they are likely to be very strong competitors in a few years."

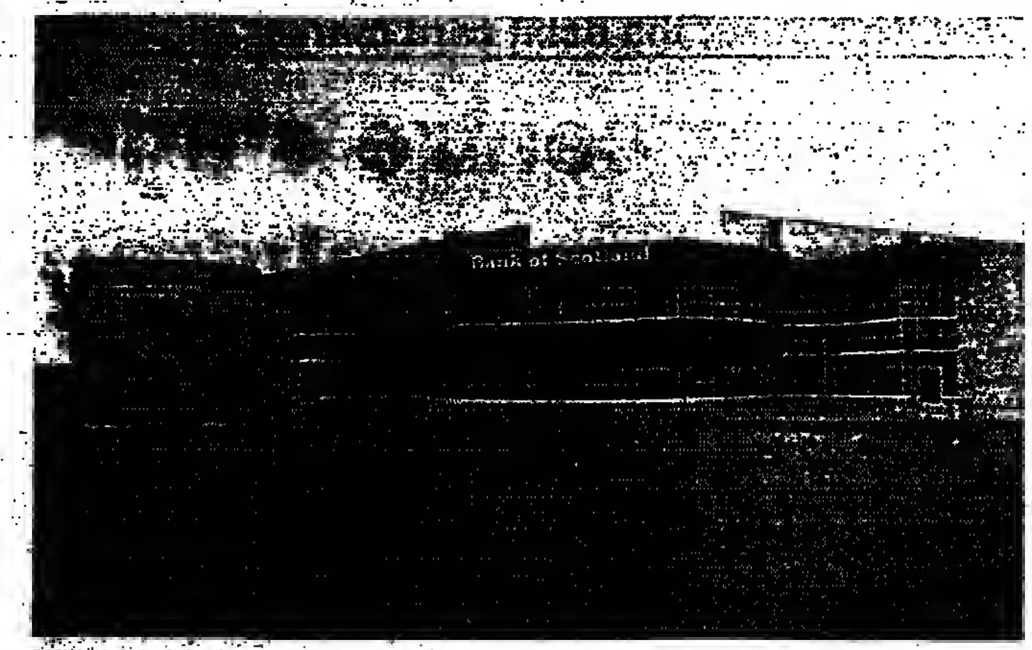
However if JCB is set on entering the international credit card market, it faces at least one US challenger who would like to do the same.

Discover, the credit card launched by Sears Roebuck, is known to be eyeing European markets. Though it does not yet have anything to match JCB's European retailer network, it has 29m cards in the market and a total retailer network of 1.1m.

A logical first step in Europe would be to set up a retailer network, perhaps through a joint venture with a local partner. That would be good news for all those US tourists visiting London with Discover cards they cannot use here.

David Barchard

PLASTIC CARDS 3



Bank of Scotland Visa centre, Dunfermline: offers its services to other banks

Processing is becoming big business

Battle for customers

WHEN THE Bank of Scotland decided to cut its links with Barclaycard in May 1986 and take its credit card processing in-house, it decided to set up a credit card processing centre offering its services to other issuers.

The Bank of Scotland Visa Centre at Dunfermline is growing steadily. Three blocks process cards for the bank, Halifax, Chase Manhattan, and the Bank of Scotland AA Visa card. In February a further 30,00 sq ft will be added to its premises when a fourth block is opened. A fifth is on the way.

Credit card processing is coming out of the shadows and becoming a separate and increasingly important business activity in its own right, rather than a back-stage in-house operation.

The shake-up in the plastic cards industry in the last two years has stretched UK card processing to capacity.

Players coming into the cards market have sometimes preferred to have their processing done by an outsider.

The growth of the market has put heavy pressure on the existing processing operations. This has made it impossible for them to do all their own processing in-house even if they wanted to.

Processing is coming out of the shadows and becoming a separate and increasingly important business activity in its own right

Barclaycard, the oldest processor in the UK, was forced by pressures of space to ask outside customers, such as TSB Trustcard and Bank of Scotland, to leave its Northampton premises and make their own processing arrangements.

This autumn, Barclays Bank has been forced by growing volumes to take a further step and fly its vouchers to the US for handling by outside processors.

Barclays did not take its business to the largest UK processor, Signet, based at Southend on Sea and Basildon.

Signet was until earlier this year better known as Access, the Joint Credit Card Company, a six-bank consortium which issues credit cards carrying the Access branding.

The changes in the credit card industry have stripped Signet of many of its old functions and forced it to find new ones as a specialist processor.

Its members are competing between themselves to offer card services to retailers, so Signet has wound down the sales force which formerly did this.

Though the company still has a substantial slice of the credit card retailer market, with about 40 per cent of Access merchant transactions, this will gradually disappear.

Mr Tony Lee, Signet's chief executive, has left the board of MasterCard International in New York, and been replaced as British representative by Mr Derek Wanless of NatWest Bank.

The main thrust of the changes is to make Signet into a processor which can offer services to other European countries as well as UK issuers.

Unlike Barclaycard, Signet does not seem to be running up against constraints of size, even though it has a market share of about 50 per cent.

"Business is good," says Mr Lee. "Even though volumes are up. We now have over 1m Visa accounts on file."

The search for new customers for both Signet and the Bank of Scotland continues.

Unlike 1987 and 1988 when there was a steady stream of new entrants to the credit card market, most of the larger new arrivals in 1989 and 1990 look like being issuers of Switch.

Switch, being an electronic only mark, does not offer the same market opportunities. Most Switch processing is done by NatWest in Leeds.

Furthermore, the needs of card processors are changing. Issuers like to perform at least some functions for themselves, particularly those which touch on the sensitive area of customer relations.

However, Mr Lee says that he is hopeful of adding to Signet's customer list in 1990. "We are talking to several people in the UK and outside and do expect some newcomers to Signet next year," he says.

Competition for the new business is steadily increasing. American Express has a processing subsidiary, FDR, at Brighton which is actively interested in bank credit card business.

FDR has the advantage that it is less of a direct competitor with the banks than Signet or the Bank of Scotland.

Mr Lee is hopeful that Signet will be able to attract business from Europe. But there is also the possibility of additional competition in the UK market from outside.

Two US card processors are known to have put out feelers to explore the UK and European market.

A store card processor, IGE Capital Retail Financial Services, opened a business development office in London last July and is looking for a joint venture partnership to build on.

There are also strong competitors in Europe. Sligos in France processes about 200m transactions a year – roughly half the volume that Signet does.

It might well be interested in entering the UK market. So, conceivably, could GZS, the West German inter-bank payments system whose role in the German card industry broadly parallels that of Access during its first decade or so.

Other small banks, such as Giro and Co-op, which already process their credit card transactions in-house may be tempted to take the Bank of Scotland route.

However, at present the smaller players in the UK card processing market are mostly store card processors serving the retailer market.

A bigger challenge may be adapting to the changes which follow when paper is gradually phased out of the system and replaced with electronic transactions.

Signet is thought to have one of the most impressive processing operations for paper-based transactions anywhere in the world. But its activities are geared to sorting vouchers, opening envelopes, and processing cheques. This way of doing things may decline in importance as the 1990s advance.

The changes in the credit card industry have stripped Signet of many of its old functions and forced it to find new ones as a specialist processor

There is also the need to keep up with new processing technology and the new investment this will require.

NatWest has recently invested in a first generation of image processing technology which allows document images to be captured and processed on screen.

Barclaycard looked at image processing three years ago and decided that it was not yet ready for adoption. Mr Ken Bignall, chief executive of Barclaycard says he thinks the time may have arrived.

Investmant decisions are particularly delicate at Signet where at least two of the three large banks among its owners are known to be reviewing whether or not they should sell out their stakes.

Signet is not due to produce its first accounts until November next year. By then the dust may be settling and it may be easier to gauge what sort of future lies ahead for the UK card processing industry.

David Barchard

David Barchard looks at the store cards' move on a banking arena

Shoppers wary of high rates

MORE THAN half the plastic payment cards issued in the UK are the products not of banks but of retailers. For nearly 25 years, some of the main retailing groups in the UK have offered their customers the chance to pay for their purchases with plastic.

Store cards get a more limited press than bank credit cards but usually not a very favourable one. This is largely because the interest rates they charge are in the 30 to 40 per cent range. This is well above the most expensive rates on bank cards which are perched at 29.9 per cent APR.

"Rates of cards issued by our members have to be higher than those of the banks for several reasons," says Mrs Elizabeth Stanton, director of Retail Credit Group, an umbrella organisation for retailers which offer credit cards.

"They have smaller balances than the bank cards and the only source of interest for the cards is the interest they generate. There is no merchant service charge."

This argument strikes some bankers as disingenuous. Store cards were not supposed to be banking products and their cost might be expected to be covered by revenue from the sale of goods and services.

However, store cards do have some problems that the banks do not. They incur higher losses than bank cards, especially at times when the consumer is under strain.

Altogether, the nine members of the RCG have 7.6m customer accounts. The figure has been growing more slowly than usual over the last year, apparently because of the slowdown of consumer spending in a high interest rate environment.

The volume of credit ontstanding on cards issued by the RCG – believed to be about 70 per cent of credit on the high street – has been marking time at £1.1bn since the first quarter of last year.

Not surprisingly, perhaps because of the high interest rates, store card customers seem loath to take up credit. The amount outstanding per account has been falling through 1988 and 1989. It is nearly 11 per cent lower than it was two years ago.

If bank customers do not like credit at the price at which it comes from the retailers, they do tend to like the regular customer status which comes with store cards and perhaps also the marketing exercises.

Even if they do not issue cards which can be used for payment, some retailers – notably hotel groups – use a plastic card linked to a discount or other privileges such as a club membership symbol. For the issuer, these cards help build np a useful database about regular customers.

Meanwhile, some retailers have moved more deeply into the banking arena. Transax, a Birmingham based company, has set up an inter-retailer cheque guarantee service independent of the cheque guarantee card scheme operated by APACS, the inter-bank payments association.

Transax offers 21,000 retail ontlets an instant cheque authorisation service, working round the clock every day of the year. Cheques can be guaranteed up to £1,000. If cheques are stolen, a stop can be put on them in seconds.

Among the retailers accepting the scheme are Harrods, Argos, Gleneagles, Ratners, Trust House Forte, Hertz, and Texas. The scheme is designed to takeover where, until recently, the banks left off.

"The average cheque is now well in excess of £100, so more and more retailers and traders are turning to us," says Mrs Marjorie Walsh, managing director of Transax.

Apart from relying on banking services provided by non-banking organisations, several large retailers have quietly acquired banking status.

These include Burtons and Marks & Spencer, as well as Harrods. Though none of these retailers have yet used their banking status in a way which alarms the larger banks, the blurring of the bonndary between themselves and the retailers is something which alarms some bankers. In the US some retailers are involved in providing financial services. The store card looks like an early stage along the way.

Bignall: pleased with Assent

Some of those US retailers are testing the water in the UK. For example, IGE Capital Retailer Financial Services, an offshoot of the General Electric Corporation of the US, last July established an office in the UK with the declared aim of identifying business opportunities in the private label credit card area.

"We're still learning about retailing and looking at the store card business in the UK," says Mr Raymond Nied, director of Retailer Financial Services. His brief is to look for retailers large enough to generate £25m in average consumer credit receivables and which are interested in GE's credit card and relating services. Another goal is to find a partner for a joint venture in private label card services.

"There are obvious differences between the US and UK retailer markets," says Mr Nied. "For a start there are many more retailers here. In the US the pattern is more of large malls and chains served by local banks. Also the US is terribla at EFT-POS. People use cheques for almost everything."

Meanwhile one of the banks, Barclays, has moved into the store card market with a budget card called Assent.

Assent is a MasterCard and offers customers the chance to buy up to 20 times a fixed monthly payment. Its attraction is that it carries a much lower rate of interest than the store cards and, since it is a MasterCard, it can be used in a wide variety of outlets.

Assent seems to be one of the more slowly-growing cards on the market, although Mr Ken Bignall, chief executive of Barclaycard, professes to be pleased with the growth of Assent's customer base.

Regaining ground lost to the retailers is an uphill struggio.

Is there a place for the smaller player? **David Barchard** reports

An affinity for segmentation

THERE IS much more to plastic than simply facilitating payments says Mr Christopher Rodriguez, chief operating officer at Thomas Cook and a former senior executive at American Express.

"We are beginning to see personal plastic more and more as a means to an end. Gold cards for instance are really a state of mind," he says.

Next year, Thomas Cook will enter the plastic card market with a product aimed at the travel and entertainment sector. Why should a late comer want to join what looks like an overcrowded market?

"Thomas Cook looks more and more to plastic as a way of reinforcing our relationship with travellers and customers," says Mr Rodriguez.

"The biggest change is the shift to segmentation," says Mr Rodriguez. "Financial institutions want to build up their relations with customers. So, whereas they used to offer them a 'plain vanilla payment card' they are now saying that a certain element of life is so important that they offer their customers the chance to wear a badge showing it."

A good example, says Mr Rodriguez, is Midland Bank's Arts Card which always sparks off a conversation when it is used to pay a restaurant bill.

Cards of this sort are known as affinity cards. The first affinity cards in the UK, such as Bank of Scotland's NSPCC card or Girobank's Oxfam card, were linked to charities. Bank of Scotland had already made its entry into the Visa credit card market with a card carrying the badge of the Automobile Association.

Unlike the charity affinity cards – which work on the principle that the credit card organisation donates a fixed amount to charity – these are straightforward joint marketing exercises.

However, the two types of affinity card, charity and non-charity, share the idea of opening up a membership group to a bank's marketing operations. This can be a quick way of getting into a difficult market.

There are believed to be more than 1m AA cards in the market and Visa has used a similar tactic in West Germany by issuing a card jointly with ADAC, the West German motor club.

When Barclays launched its first card on the MasterCard brand early this year, it too was a co-branding, this time with the RAC.

However, not all smaller card issuers rely on the affinity principle. In 1988, Save & Prosper, the consumer banking arm of Robert Fleming, and Chase Manhattan, both launched cut-price credit cards designed to cream off good customers – the sort of people who have impeccable financial prospects and are probably house owners but need to borrow a little money each month – from the larger banks.

Both Save & Prosper and Chase Manhattan were reportedly inundated with customers seeking a lower rate of interest than that offered by the larger cards. In March this year, they were followed by American Express whose Optima card is designed for up-market borrowers wanting large amounts of credit at lower rates.

Save & Prosper has gone on to snipe at the larger banks by offering its customers a "two in one" MasterCard with Visa account. Customers can pay £8 for two cards, which a carry single credit limit.

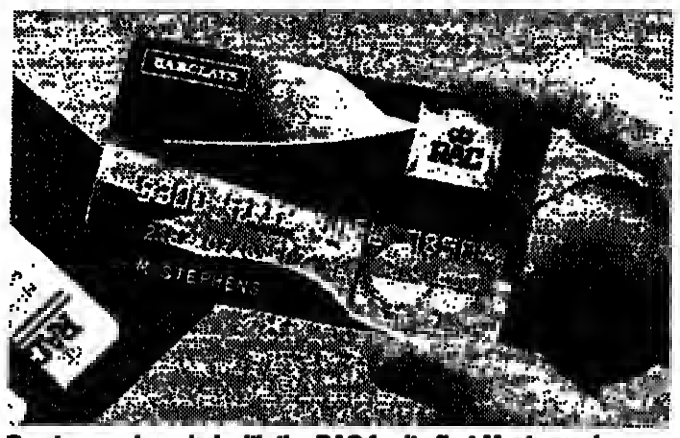
Some of the larger Visa banks were not charmed by this idea and it took more than one meeting before the scheme was approved at Visa's European and Middle Eastern board meeting in October.

Since then, Mr Ian Lindsey, director of Save & Prosper, has set his sights on customers of Lloyds Bank Access who face a £12 charge for their cards from January next year. Mr Lindsey is offering a lower rate of interest and a lower charge.

His rate however is not the lowest on the market. That distinction goes to Town & Country Building Society whose card carries a monthly rate of 1.5 per cent (APR 19.5), while Chase Manhattan and Save & Prosper are up at 1.85 per cent a month (APR 24.6).

The cut-price cards aim at "cherry-picking" quality customers. They are mostly not intended to become cards with a mass customer base, unlike some of the new cards launched by larger players.

Halifax Building Society's Visa card, a joint venture with the Bank of Scotland, and (probably) the Visa cards of Leeds Permanent and National & Provincial Building Societies are designed to build up a long-term presence. But it is expensive especially at present.



Barclays co-branded with the RAC for its first Mastercard

Leeds Permanent's Visa card, an affinity card linked with three large charities, was launched amid a blaze of newspaper publicity a year ago. It has put on a fairly respectable 250,000 accounts but it also cost Leeds Permanent £7.5m in its first year.

Halifax's Visa card also showed up as a loss item in its accounts last spring, though the impact was less because costs were shared with the Bank of Scotland through the joint venture. Leeds Permanent says that it hopes the card will move into profit at least by year three of operations.

Experiences such as this make some of the larger issuers sceptical about the merits of affinity cards. "I consider them a dead duck," says Mr Gerry Hawkins, assistant general manager for card services at Lloyds Bank.

Other new entrants to the credit card market run the risk that their cards will turn out to be loss-making adjuncts to their retail banking services.

Realisation of this, last June, seems to have halted Abbey National's plans for a credit card. Instead it looks probable that Abbey's first experiment with plastic will be a debit card with the Switch branding.

Leeds Permanent wants permission from its members to join the Switch scheme, and so are most of the other top five building societies. The golden era of the building society credit card has proved remarkably brief. It was only at the end of 1987 that societies obtained the right to issue cards.

Though small banks will probably continue to join Visa International, they may prefer to go the affinity card route in search of customers outside their current account base.

Bank of Commerce and Credit International has issued 13 separate affinity cards, linked to a variety of good causes: Care for the Wild, the Radio Society of Great Britain, and the Downs Syndrome Association. Most recently the bank launched a GreenCard which aims at raising up to £2m for the environment over the next two years.

BCCI says that it has the highest contribution rate of any affinity card – 30p donated for every £100 spent.

However, not everyone is sure that charity cards are necessarily the best way forward in the market. What some of the larger banks are looking at is ways of targeting identifiable groups of their customers with specialist cards closely linked with their economic and social status.

Midland Bank, has segmented its customers into Vector (for Yuppies); Orchard (for middle aged, middle income home owners) and Meridian (for high income customers).

The results have not won universal approval but there seems to be general agreement that segmentation, especially in the plastic card business, can yield results.

The arrival of Switch has set the debit card market alight

Retailers take centre stage

IN THE UK payment card industry, 1989 will probably be remembered as the year in which Switch, the electronic-only debit card, firmly establised itself as a leading player.

It may also go down as the year when Visa responded with an unprecedented step: a second brand in the UK in order to head off the growing threat from Switch in the debit card market.

Visa's action seems to have been triggered by the steady growth in the numbers of retailers and banks joining the Switch scheme.

Even Marks & Spencer, which has never accepted any bank payment card, broke new ground by saying that it will run some Switch trials. Most other large UK retailers either accept the scheme or are in negotiation with one of the Switch banks to join it.

By the end of this year there will be at least 15,000 electronic checkout terminals in retailers accepting Switch and perhaps 10m cards issued. Mr Derek Wanless, general manager for UK branch business at NatWest, expects that there will be 200,000 terminals in operation by the end of next year.

"There is a strong demand coming from the market for this product," he says. "We are very pleased with the way it has gone so far."

Though Switch still has less than 7,000 merchant outlets while Visa has about 315,000, a very strong retail network is taking shape.

There has been a steady flow of banks into the scheme, led last spring by the Bank of Scotland, and followed by Yorkshire Bank, and latterly the Halifax building society. Halifax's decision to join Switch is remarkable because it became a Visa card issuer last year.

Most other large building societies are known to have plans to join the scheme and will probably try to add Switch to the functions on their cash withdrawal cards.

Most impressive of all however, was the Damascus road conversion of Barclays and Lloyds banks, the first two debit card issuers in the UK, to Switch. In early October, both banks announced within a few hours of each other that they were applying for Switch membership.

Mr Seymour Fortescue, Barclays director of retail services, made it plain in announcing the application in September that Barclays was joining Switch in order to be able to offer retailers the branding along with MasterCard and Visa in a combined servicing package.

"Retailers clearly want to negotiate terms with a single bank on behalf of all three payment systems and they want a terminal that will accept all three types of payment cards," he said.

Mr Fortescue dangled the possibility that Switch would benefit from the addition of the 11,000 PDQ electronic terminals which Barclays already has in the field. However by early December talks between the Switch Banks and Barclays and Lloyds had not produced a clear agreement on the terms on which they should join Switch.

To understand the volte-face implied in this decision, the previous 18-month history of Switch must be born in mind.

Switch's origins go back to the period in 1987 when Barclays and Lloyds banks announced their plans to be first into the debit card market by issuing a Visa debit card. The new card seemed an elegant solution to the tricky problem of how to launch a completely new product on the market.

Visa debit cards would have the advantages of the Visa system – world-wide use and immediate access to all Visa retailers including those without electronic terminals – while drawing funds from the cardholder's current account at his bank, rather than a credit card.

The card had to be Visa and not Access because Visa had agreed early on to the idea of a debit card carrying its branding.

Access, the other main UK credit card branding, turned down the idea of a debit card when Lloyds approached it. Hence the defection by Lloyds, an Access shareholder bank, to the Visa camp.

The remaining large Access banks, NatWest, Midland, and Royal Bank of Scotland waited some months before announcing their debit card strategy.

In the interval, it became clear that there was strong retailer opposition to Barclays Connect, the first Visa debit card, and even then Barclays bowed to the retailers and adjusted the terms on which Connect operated, the retailers continued to send strong signals that they did not want a credit card branding to be used for the new generation of debit cards.

In March 1988, NatWest, Midland, and Royal Bank of Scotland unveiled their plans. Their new debit card option would be an extra function added to their existing automated teller machine and cheque guarantee cards called Switch. It would have no links with either Visa or MasterCard (the international affiliate of Access) and it would not work through vouchers.

Wanless: 200,000 terminals by next year

When MasterCard made discreet approaches to see if its branding could not be added to Switch, it was politely rebuffed.

Barclays and Lloyds were both deeply sceptical about Switch. The tasks involved were certainly daunting. A national retailer network had to be established from scratch. Entirely new processing facilities had to be set up as well as the electronic data networks.

The only side of the operation which looked relatively easy was card issuing. Because Switch was added to the existing cheque guarantee and cash withdrawal cards of its members, the symbol was simply put on new cards being issued.

However, Switch's strongest asset from the outset has been the enthusiasm of retailers.

"We are very excited by Switch," says Mr Jeremy Grindle, retail operations director at J Sainsbury. Switch's design deliberately incorporates retailer preferences. Retailers pay a flat negotiable fee per transaction unlike the percentage commission on credit cards.

Switch also wins retailer approval for having a more competitive inter-bank pricing structure than credit cards, where there is a fixed one per cent "interchange fee" paid between the card issuing bank and the retailer's bank.

These and other characteristics of Switch have led to frequent charges that it is underpriced and the banks may end up losing money on it.

But the basic reasons why large food retailers like Switch are fairly obvious: it is faster, cheaper, and more secure than traditional paper-based forms of payment, while Switch enables them to avoid the heavier commissions charged on credit charge transactions. Until recently any retailer taking Visa debit cards also had to accept all Visa credit cards.

Latest blow in the battle is Visa's surprise announcement in November that it will offer an electronic-only card, called the Electron card, a separate Visa branding from the familiar Classic brand. It is intended for food retailers and some utility payments.

Sainsburys was swift to accept Electron – which means in practice Barclays Connect and the Lloyds Visa card, though neither yet carries the Electron symbol.

Retailers were quick to claim a famous victory. It will take some months however before it is clear whether or not the Electron branding will be able to block Switch's steady progress in the market.

David Barchard

Technology has spawned an array of terminals says **Alan Cane**

Range of services widens

THE MAGNETIC stripe embedded beneath the skin of today's plastic card confers a powerful benefit on an otherwise dumb token. It gives it the ability to interface with computers and so act as the key to a broad range of services, electronically delivered.

It has provided the impetus for the development of an array of different kinds of terminal from a diversity of manufacturers which are able to accept and read plastic cards.

These terminals can be broadly divided into two categories, correeponding to self-service and cashier-service.

First, antomated teller machines (ATMs), the sophisticated cash dispensers which are commonplace in the walls and lobbies of banks and building societies. Second, point of sale terminals found in a variety of retail outlets.

It fell to ATMs to educate the general population abont the use of plastic cards and personal identification numbers (PINs). One indication of how successful they heve been is the world-wide growth in the number of ATMs and cash dispensers installed.

According to a new report from the consultancy Battelle Europe, the total number of ATM's installed world-wide is 235,000. Japan and the US have about 75,000 each. There are 56,000 ATMs in Europe, some 24 per cent of the world total.

According to Battelle, the world total of ATMs has nearly doubled since 1984. Mr Geoffrey Tait, marketing manager, financial products for NCR, the European leader in ATMs, says that as a cash delivery mechanism, ATMs are close to market saturation.

The total value withdrawn from European ATMs in 1988 was £140bn through just under 2.5bn transactions.

There are substantial differences between countries. The Swedes, for example, are Enrope's most enthusiastic users of plastic cards to operate ATMs. Each Swedish ATM is operated 8,000 times a month, more than twice the European average and almost 10 times more than the 910 withdrawals per machine per month in Greece.

It is a market characterised by a small number of large players. In the US, the market leader is Diebold whereas in Europe, NCR has consolidated its lead over International Business Machines taking 33 per cent of the market to IBM's 20 per cent.

NCR supplies machines to more European countries than any other maker; 15 out of the 17 that Battelle surveyed.

The principal trends in ATM development are:

- The establishment of very large shared networks through mergers between existing networks. France, for example, now has a network totalling 11,457 machines, the only European country to feature in the world's top 10 ATM networks.
- The growth of lobby ATMs; free standing but secure and substantially cheaper than traditional through-the-wall machines.

The banks and building societies do not seem to be greatly interested in complex terminals. ATMs with the option of voice response or interactive video to take cnstomers through transactions have not found many takers.

- ATM cards are becoming more multifunctional. Nearly 75 per cent of all ATM cards can act as a credit card, a debit card, a cheque guarantee card or a combination of these.
- ATMs may not be becoming technologically more complex but they are certainly offering more functions.

Almost three-quarters of those installed offer other facilities as well as dispensing cash. There is, however, a move to dedicating machines to particular functions. Nobody wants to wait in line while somebody checks their statement in minute detail.

Cashier-service machines of the kind commonly seen in stores and supermarkets can be divided into two gronps. First, the large systems of the kind offered by mainframe suppliers such as IBM, International Computers and NCR and minicomputer suppliers such as Nixdorf.

These systems are integrated – they comprise card reader, teller and customer displays, cash register and bar code reader as the elements of a complete electronic point of sale system.

Such a system is likely to cost between £3,000 and £6,000 a station. Retailers, of course, differ in their requirements and may wish to take only selected elements rather than the complete package.

Second, suppliers snch as Fortronic, Verifone, Racal and Nokia Data who build specialist point-of-sale terminals designed around the need to read and validate plastic cards.

The UK's national EFT-POS system, for example, specified terminals from three suppliers for the pilot operations, now in progress. They are Omron, Fortronic and Nokia Data.

Such systems are designed to be complementary to a retailer'e existing point of sale equipment rather than to replace it. They are also built to sell at a considerably lower price than the integrated systems made by the mainframe manufacturers. A typical card terminal of the kind to be used in EFT-POS, for example, might cost about £1,000.

Earlier this year, for example, Lloyds Bank announced a cashless shopping system based on terminals developed by Nokia Data which attach to electronic cash registers. The bank has bought more than 2,500 of the terminals, at about £900 a terminal.

The Nokia terminals can handle all kinds of magnetic stripe cards and it is able to distinguish from the information on the card what network it should use and what security system is employed.

Last month, Barclays announced that it would be introdncing in the new year the PDQ4, a novel terminal within the reach of retail outlets that found the cost of larger EFT-POS systems beyond them. It is battery operated and competely portable and based around two card technologies.

It reads all leading debit and credit cards through a conventional swipe mechanism but feeds the data collected both from the card and from the transaction to a memory card in the body of the terminal.

The memory card, with details of the day's transactions can be removed at the end of the day and handed in to a Barclay's branch for processing.

Barclays thinks of its new device as an electronic imprinter, the electronic equivalent of the conventional card imprinter but with its own "hot" list of stolen cards in the memory card.

It looks as if point-of-sale technology will soon be available to the smaller shop and corner store with its estimated cost of about £100.

ATMs and Cash Dispensers: An International Survey and Analysis 1989. Battelle Institute, 15 Hanover Square, London W1R 9AJ

Automated Teller Machines

Dispensers launch cash revolution

FEW AREAS of tha plastic cards business are growing as fast as the use of automated teller machines (ATMs) and cash dispensers. Since 1984, the number of ATMs in the world has nearly doubled to about 235,000.

Japan and the US lead the way, each with 75,000 machines. In Europe, ATM coverage is patchy. The UK has the highest national total with 14,000 machines installed at the start of this year. UK machines are divided between several competing networks.

France with its single network of 11,457 machines has Europe's biggest network. Though West Germany has only 5,160 ATMs, (all but a handful of them accepting Eurocheque cards only), its network counts as one of the larger ones. Per capita however, the picture is slightly different.

There are only 84 ATMs per million West Germans, compared to an average for Europe of 158. France has the highest with 431 machines per million of the population.

The ATM revolution is changing life for travellers even in relatively late-developing countries. Not all travellers care for the ability to draw out money from their bank back home.

Mr Chris Rodriguez, chief operating officer at Thomas Cook, says that some travellers are unnerved by the thought of unlimited cash on holiday. "They still prefer travellers' cheques because it gives them tighter control over their spending."

Nonethaless consumers increasingly view ATMs as a natural adjunct of life, bringing pressure on airports and similar institutions to provide ATMs in strategic locations for travellers.

This pressure from the market poses two sets of questions for banks. Firstly, there are the commercial issues. ATMs mostly reflect recent and fairly heavy investments.

"I don't think the point has yet arrived at which we should regard ATMs as utilities, though it may do eventually," says Mr Derek Wanless, general manager for UK branch business at NatWest Bank.

A complicating factor is the possibility that ATMs may be used by a smaller competitor with a limited branch network to take customers away from a larger one. Banks charge each other a fee when their customers use another'a ATM. Tha size of the fee is not made public.

One large player to the UK retail banking market, Halifax building society, recently introduced a charge of 50p to its customers for each cash withdrawal they make using the machines of other institutions on the same ATM network.

The second issue is the need for security. Some ATM systems have invested much more heavily in encryption and security than others.

"Think how many centres the message passes through when you draw money in London by using an ATM in Istanbul," says one banker. "Unless you have a fool proof encryption system in place, there is a great deal of vulnerability at least in the long run."

Banks have learned not to give too mnch information away. One small ATM system in the UK discovered to its horror that there was sufficient information on the transaction records that its machines were issuing for magnetic stripe information to be duplicated by fraudsters.

Nonetheless the pace of change in the market is clear. A recent study by the Battelle Financial Technology Group identified several important trends:

● Networks are growing larger through mergers. In the UK in the last year for example, the 4,000-machine Mint network of Midland Bank, NatWest Bank, and TSB was set up during 1989, while two smaller networks, Link and Matrix, catering mainly but not exclusively for banks, also joined forces

● ATM cards serve an increasing number of pnrposes. Almost three-quarters of them are either a debit card, a credit card, or a cheque guarantee card

● The number of facilities offered by ATMs is growing. Customers want to be able to get more detailed information about their accounts and they may also use ATMs to deposit money as well as for withdrawing cash

● The proportion of ATMs located in branch lobbies is rising.

The market for ATMs in Europe is dominated by NCR and IBM which have a market share between them of over 50 per cent. However NCR is pulling ahead of IBM. Four years ago IBM had a larger share of the European ATM market than NCR. Today the ratio is 20 per cent to 33 per cent in NCR's favour.

In the UK, NCR supplies ATMs to NatWest, Barclays, Midland, TSB, Girohank, Lloyds, and Abbey National, as well as the Nationwide Anglia building society. Lloyds has recently switched from IBM by ordering 150 NCR 5085 machines at a cost of £3.6m.

In the US where Diebold is the main supplier, there are two main ATM networks, Cirrus and Plus. Plus, which is based in Denver, Colerado, has more than 28,000 machines around the world, of which 1,100 are in the UK, through a tie-up with the LINK network.

ATMs are not only for those away from home or those who have no chance to visit their branch during the day. Automation of branch banking is advanced in Europe and the US. One of the front runners in Britain is Midland Bank which has converted many of its high street branches into self service branches.

Self-service facilities have to be in real-time to be effective and most of the larger British banks, other than TSB, are still not able to offer real-time information to their customers. At other banks, balance information usually reflects the state of a customers' account at the close of the previous day — or even earlier.

This sbould change when EftPos UK is running. Its terminals will eventually offer customers the chance to see how their bank accounts stand on an up-to-the-minute basis.

A more urgent task in Europe is the establishing of an system of ATM inter operability in the European Community.

Two years ago, European banks met at Florence and laid down proposals for a scheme to allow bank customers to use a singla card thronghout the Community. However the proposals, which largely reflected the thinking of the West German banks, were attacked as anti-competitive.

Though networks are gradually merging in both Europe and the UK, the divisions between them may take a long time to disappear.

David Barchard

Consumers increasingly view ATMs as a natural adjunct of life

Alan Cane examines the impact of technology

Smart card transition

SMART CARDS, credit card-sized pieces of plastic with computer circuitry embedded beneath their surface layers, are coming of age.

They fulfil the functions of a conventional magnetic striped card in banking and cashless shopping and many more beside. They are virtually impossible to counterfeit. They are able to store large amounts of information of all kinds and can operate either on-line or off-line (connected directly or not connected to a central computer).

In the US, smart cards will soon replace conventional magnetic stripe cards for banking and retail applications. A recent industry report, suggests that the transition will begin in earnest to 1993 and that by 1998 there will be 75m smart cards in use.

France, which gave birth to smart card technology, is in the latter stages of a FFribn programme which will involve the distribution of 16.4m units of a hybrid smart card called Carte Bancaire. Hybrid cards or mixed cards include both a computer chip and a magnetic stripe on the same card.

The Carte Bancaire programme includes 70,000 devices to read smart cards and 300,000 low cost hand-held devices. Some 2m cards have been issued and the programme will be completed to two years.

In Italy, Confcommercio the Italian retail federation, is involved in the creation of a nation-wida retail credit system using smart cards. The target is to have 1m cardholders, independent of the banks, within three years.

In the UK, where there has never been more than luke warm interest in the concept of smart cards, there are a small number of trials under way.

Cheshire and Milton Keynes, for example, are sites for trials of the card as an intelligent bus pass. Milton Keynes City Bus, which operates about 100 buses in the area, is installing smart card readers in its fleet and is distributing up to 20,000 cards.

Passengers carry the cards as a substitute for conventional weekly or monthly passes. The driver has a card which fits into the card reader and keeps a record of the day's transactions.

Midland Bank has carried out a limited experiment at Loughborough University, and seems likely to carry it on into a second year and with a more broadly based clientele. According to Mr Bob Carter, research and development manager for Midland's card and electronic products division, the future of the card in the UK has become very promising.

Midland intends to improve the security aspects of its trial by including "biometric analysis" in the next phase of its development. It will be testing "dynamic signature verification" — storing in the memory of the smart card not only the geometry of a cardholder's signature but the way in which it is written; speed, depth of stroke and so on.

Barclays Bank has launched a multi-application trial involving some 2,000 cards with a sports club near Northampton.

Sky TV, the satellite broadcaster, is planning smart cards to enable its subscribers to decode pay television services. The report on smart cards predicted the market for them would be worth between £2bn and £3bn by the mid-1990s.

While trials in most countries are at an early stage, there is some evidence that smart cards are as well accepted as their magnetic striped equivalents in retail.

Mr Roy Bright, European managing director of Smart Card International reported the results of a trial carried out in Lillestrøm, Norway. It revealed that 88 per cent of retailers thought the smart card system performed up to their expectations while 4 per cent were disappointed. Furthermore, 92 per cent thought customers were either pleased or very pleased with the system and 84 per cent believed their staff were equally satisfied.

The retailers who sponsored the survey have ordered about 600,000 cards and associated equipment based on French technology and are establishing the system in 12 cities including Oslo.

According to Ms Sarah Brown, author of the smart card report, however, the market has to be drastically rethought. She argued that the emphasis on banking and credit card applications should give way to a greater concentration on other uses. For example, the possibilities of using smart cards as a portable medical record, social welfare token, security device and personal database.

However, Mr Bright pointed out: "The smart card still has to overcome a number of obstacles in order to effect the transition from the initiation to take-off phase. These barriers comprise both technical and commercial issues. Notably; agreement on international standards, improved cost benefit performance and the impact of alternative technologies."

These alternative technologies include the optical memory or recall card which can store the equivalent of more than 1,100 pages of text and graphics on A4 size paper.

A licence for the optical memory card (OMC), developed by Drexler Technology in the US, was purchased by British Telecom in 1986, giving the UK telecommunications company the right to market OMC products on a non-exclusive basis.

In Europe, the OMC is in use in finance, medicine and health care, while in Japan, it has been tested successfully at Sumitomo Bank.

The cost of smart cards is likely to prove a handicap. Memory cards of the Drexler type cannot compete with conventional smart cards in terms of processing power but they are cheaper to manufacture.

Mr Bright noted: "The general level of costs for microprocessor, contact equipped passive cards should have stabilised between $2.50 and $12 according to the memory technology and capacity." Conventional cards, produced in volume cost pence per unit.

The most interesting technological development has been the active cards comprising battery, keyboard and liquid crystal display.

According to Mr Bright, they are the "missing link" between first generation smart cards and personal computers. His company's "Ulticard" comprises multiple application programs, read-in and read-out facilities, logical indexing of files and secure access to all levels of the system.

"Given this array of features," Mr Bright said, "any active card costing under $200 compares favourably with the lowest priced personal computer at over $700."

The Smart Card, Post-News, Stoke-sub-Hamdon, Somerset TA14 6BR, £199

RETAILERS

Banks wary of threat

HIGH ON the list of beneficiaries from the plastic cards revolution are retailers. Their gains are likely to go beyond cheaper, swifter, and more secure forms of payment. Indeed some bankers wonder whether the shops' strength is may be a threat to their own industry.

This may not be apparent from the signals of the retailers. The task of laying down an electronic payments system for the 1990s has proved acrimonious. The retailers droye one hard bargain after another and split the more or less united ranks of the banks.

The retailers are determined to hold their own on terminal installation. The terminal population of the UK stands at about 64,000, having doubled each year since 1986. Though about two-fifths of these terminals belong to the banks, the remainder were installed by retailers.

Elsewhere, the retailers have increased pressure on the banks to determine the form and direction of changes in the payments industry.

Two influential retailers lobbies have emerged. One, the Retail Credit Group, represents stores which offer credit through plastic cards. Its members include the Burton Group, Dixons, Marks & Spencer and Next.

The RCG has the double task of exposing shortcomings in the banks' products while defending the need for store cards to charge interest at higher rates than the banks.

It brought a spotlight on such issues as bank overdraft charges (the retailers think these should be expressed in annualised percentage terms as other forms of consumer credit are) and credit card margins. In October, the RCG published figures showing that retailers have to pay nearly five times as much for taking credit cards as they do for taking a comparable debit card.

Each debit card costs a retailer about nine pence, compared to a 1.3 per cent transaction charge on credit cards which works out at 42p on the average transaction of £32. Figures for other retailers may be higher as the average commission on credit cards is usually put at 1.75 per cent.

The RCG commended the Monopolies and Mergers Commission's report last August, which said retailers should be free to charge a lower price for cash transactions than that paid by credit card.

It pressed the Government to change the structure of credit card payments between banks, arguing that these set a floor below which the commissions charged by merchants cannot fall. At present, when a Lloyds cardholder buys goods in a store whose credit card business is handled by Barclays, then it is Barclays, as the retailers' bank, which makes a payment, in most cases of 1 per cent, to Lloyds.

The RCG says the UK credit card industry is concentrated in favour of the large banks. The top five card issuers (Barclays, NatWest, Lloyds, Midland, and TSB) account for 89 per cent of card transactions and 86 per cent of bank payment cards. The RCG campaign has been helped by the general public's distrust of the banks and their credit cards.

If the RCG represents tha retailers' aerial bombardment in the battle with the banks, Mr Bob Woodman and tha Retailers Consortium are the retailers' heavy artillery. The Retail Consortium's payments committee, which Mr Woodman chairs, handles retailer negotiations with the banks to set up debit card and EFT-POS payment systems.

"Current account banking and its related payment services is the banking battleground," Mr Woodman told a bankers' conference. "Retailers are henefiting from an outbreak of competition for their credit card business."

Mr Woodman's verdict on the MMC credit card report was that: "It should be consigned to the wastepaper bin, so that at least the salvage industry could benefit."

Mr Woodman regards many aspects of the retail banking business as still insufficiently competitive. He would like, for example, to see retailers in the UK being allowed to join international paymant systems such as Visa and MasterCard.

Some UK retailers, including the Burton Group of which Mr Woodman is a director, have acquired banking licenses. But it is not clear whether they can join banks' clubs such as Visa.

The last year has seen several victories for the retailers, each producing greater competition on the banks and trimming their margins. Their greatest success was the establishment of the Switch system.

Switch, designed with retailers' needs in mind, appears to be destined to become a UK national debit card system. Even if this does not happen, Visa is offering a modified electronic debit card which would not have come into being without the retailers' campaign.

Two years ago, such a development would have been unthinkable. Indeed the power of the retailers was not fully exposed until the furore which followed Barclays attempt to launch its Connect debit card on the same terms as its Visa credit card.

Retailers lohbied successfully to get the banks to raise the £50 ceiling on cheque guarantee cards. This was an area where tha banks were extremely reluctant to move. The APACS, inter-bank payments association, guarantee limit was set in 1977 when £50 was worth about £120 in 1989 prices.

The banks had held the limit down for two reasons. Tha first was to encourage customers to shift away from cheque payment to plastic card methods. The second was the knowledge that higher guarantee limits would mean that losses from fraud would shift from the retailers to the banks.

The big clearers agreed last May to replace the £50 limit with a more flexible system, allowing from some cards to offer guarantees of up to £250.

The strongest indication of retailer strength however is the steady fall in the "merchant discount" — the commission charged on each credit card transaction. Eighteen months ago, this averaged 2.5 per cent. Today, it is about 1.75 per cent and falling.

Mr Woodman says that he believes tha different payments, such as Visa, MasterCard, and Switch, will eventually dissolve and be replaced by a unified transmission network.

He is on record as saying that tha merchant discount should essentially represent *only communication* and transmission costs, thereby taking away all the banks' profits on that side of their business and forcing them to make their profits from plastic cards from the personal customer.

Fraud and security

Doubts over responsibility

ONE OF the main constraints on the growth of the plastic cards industry world-wide is the fear of fraud.

However, card issuers' concern with fraud and security tends to get played down because they are reluctant to put ideas into the heads of fraudsters.

For many cardholders, the less pleasant side of the card business is the discovery that the loss or theft of a card can be followed by some pointed or even sceptical questioning from the card issuer. Nor is it clear where the balance of responsibility lies.

One large UK building society warns its customers on its automated teller machines (ATMs) that they may be responsible for any losses on their cards until the loss is reported. Would a similar warning be issued with a cheque book current account?

Not surprisingly fraud and security issues, and in particular the question of who is responsible for losses incurred on stolen cards, have aroused the concern both of consumer groups and officials of the European Community.

At a recent EFT-POS conference in Edinburgh, Mr Jeremy Mitchell, a specialist in electronic payments issues, warned his audience that "proper standards of consumer protection in banking should not be the subject of a secret deal between the banks on the one hand and the Treasury and the Bank of England on the other."

Mr Mitchell claimed that the banks were being unimaginative in failing to recognise the opportunities of a generous approach to safeguarding the interests of their customers.

Are the card issuers being unduly cautious? If one looks at fraud losses admitted by the companies, it might seem that they are.

"Fraud costs the industry about £1 per card per year," says Mr Ken Bignall, chief executive of Barclaycard and the largest UK card issuer. "But if one considers there are over 1m transactions per day, fraudulent usage is remarkably small. Only one card out of every 15 that gets lost, gets abused."

The fears of the card issuers centre on what happens when cards stray from the wallets of their holders.

Security features are increasingly built into the electronic terminals. Lists of the "hot cards" are downloaded daily.

Barclays PDQ4, a hand-held terminal being launched next year, will be capable of daily updating. However, in the UK at least, fraudsters tend to use stolen cards within hours rather than days.

Counterfeiting is not a significant problem in the UK, though it is in some European countries, including France and Italy and also parts of south east Asia.

Counterfeiting has become somewhat harder in recent years since card designs were revamped to include a variety of secret security features, and the holograms on Visa and MasterCard.

However, some processors and issuers believe that fraud is becoming a more serious problem.

Mr Tony Lee, chief executive of Signet, the largest UK processor, says he thinks fraud has increased this year. "The trend is upwards. Not surprising since the fragmentation of marks on cards is bound to lead to some improper use."

Mr Derek Wanless, general manager for UK branch business at NatWest Bank, says that part of the apparent increase in fraud figures this year is a distortion caused by processing problems after the arrival of duality, the combined handling of MasterCard and Visa retailer operations.

"The system couldn't cope for a while so the figures were concentrated and fraud levels seemed to rocket. Now all that has levelled out," he says.

Mr Christopher Brobbel, manager at the Bank of Scotland's Dunfermline Centre, says: "Our experience here on fraud is no worse than anybody else's. Indeed it is probably slightly better for fraudulent applications and transactions."

He says the loss ratio on fraud to total turnover is about 0.13 per cent for Bank of Scotland, slightly under the UK average of 0.14 per cent.

Like most processors in the UK he is chiefly concerned about two types of fraud: false applications, made in the name of somebody else or a non-existent person, and the interception of cards in the post before they reach the cardholder.

Patterns, sometimes potentially embarrassing ones, quickly show up in this kind of fraud. Some card processor operations have names of postal districts, towns, or even entire countries where normal operations cannot be safely conducted.

Tony Lee: fraud has increased this year

There are also particular groups among which fraudulent card applications are most common. Though names and addresses may vary, card issuers are developing ways of spotting multiple application from a single individual.

"As a processor, we have the advantage that we handle cards of several issuers. So if there is someone who is sending in multiple applications, we do get to be good at spotting him," says Mr Brobbel.

The handling of intercepted cards is a more delicate issue. Marks & Spencer operates a system whereby a card must be validated by its holder before it can be used for the first time. Some banks are considering schemes which would allow cardholders to collect the card from a branch rather than have it arrive through the post.

The alternative would be to incorporate features into the card ensuring that only its rightful owner could use it.

At present cash withdrawal machines rely on PINs, personal identification numbers, for this. PINs are little loved, but until recently no one has been able to suggest a better method.

They are vulnerable to possible interception (a member of the Jack Committee which reported last spring on bank/customer relations claimed to be able to spot a PIN being used at an ATM from the upper deck of a passing bus). A lot of people find them hard to remember and record safely, especially if they have to use several PINs.

However, some bankers look increasingly at biometric methods — ways of incorporating unique details of each customer on the card.

There are a number of ways this can be done, though they are not always appealing. Finger or palm prints, retina characteristics, saliva, and the way a customer makes his signature can all be recorded and stored on the card and checked in the terminal.

Dynamic signature verification is the front runner here. EftPos UK, Bank of Scotland, and Midland Bank have all shown interest. Norton Opax/McCorquodale, and De La Rue have developed two leading systems.

Some snags remain. One is that smart cards are much more expensive than cards with magnetic stripes. A second is that the arrangement for the customer to put the information into the card may be expensive and time consuming.

The biggest problem in the eyes of banks is that there are still likely to be too many false acceptances and false rejections to make dynamic signature verification wholly satisfactory. But with systems getting steadily more sophisticated, their acceptance may be only a matter of time.

The US market has reached saturation point, says **Karen Zagor**

Growth in small amounts

SMALL AMOUNTS business, transactions of less than $25, is just one area where the US credit card industry is looking to expand in an increasingly competitive environment.

Punters at Donald Trump's two eponymous Atlantic City casinos can slip plastic cards into the slot machines. Diners at a number of US fast food restaurants can charge their hamburgers and milk shakes to Visa. Film-goers at Cineplex Odeons cinemas can charge their tickets on American Express cards.

Health care is also a promising area, said Visa, because it generates some $250bn a year but only about 1 per cent is paid for by plastic.

The US credit card market, which expanded rapidly in the early 1980s, has reached saturation point, said Mr John Love, a senior vice president at Faulkner and Gray, a leading industry publisher. Growth will have to come in small, related niches, such as fast-food, restaurants and health care.

While there is still some room for growth, the golden period of the mid-1980s is over. "Credit card companies are competing for market share as opposed to competing for a bigger piece of the incremental growth," said Mr Love.

In the mid-1980s, the bad debt ratio increased from about 1.5 per cent of receivables to more than 3 per cent.

"When the industry was so handsomely profitable in the early 1980s, issuers thought they could handle the increase in bad debt and for a while they could," said Mr Love. But as profits fell the bad debt began to be felt by the companies.

The industry is increasingly dominated by big names — American Express, Visa and MasterCard. The difference between the services offered by the cards is narrowing.

Traditionally, American Express was the card of choice for business travellers and other high spenders. Consumers paid their expenses in full each month and paid an annual fee for the card.

Visa and MasterCard, on the other hand, were primarily bank credit cards aimed at the greater middle class with more of a presence in retail outlets.

However, the gap between American Express and the bank credit cards has narrowed considerably in recent years. Visa and MasterCard offer premium cards, which have brought in higher income cardholders. Meanwhile, the American Express Optima card allows customers to pay off the charges over a period of time.

"Nothing is more important to us than customer service," said American Express. However, this attitude has permeated the credit card industry as the notion of a relationship with the cardholder grows in importance.

Furthermore, Visa and MasterCard offer the value-added services which were pioneered by American Express. Such services as purchase protection and automatic insurance for car rental, are now standard, although American Express still leads the pack when it comes to detailed customer statements.

Although these services help attract customers, they are costly and have reduced margins for the card companies.

According to Mr Love, there is likely to be an escalation of the "enhancement wars," to bring more services to the customer, probably with better information for cardholders such as ways to save money on hotels.

In this realm, American Express still has an edge on the bank cards because it controls its card and merchant bases. Visa and MasterCard are not such monolithic organisations. "We are one company, issuing a family of cards and operating around the world," said American Express.

American Express has spent heavily on its Genesis data processing system to help the company cull details of where the American Express cards are used and what has been purchased and for how much.

It is the middle market players who are likely to be the losers in this competitive environment because they are too big to offer personalised service and too small to offer the economies of scale and sophistication of the big names.

Traditionally, American Express was the card for business travellers . . . Visa and MasterCard were primarily bank credit cards

Small players such as community banks are increasing market share because they offer a more personal service and can link up with third party processing associations to provide the sophisticated services of big companies.

There has been considerable consolidation among the bank credit cards. In 1988 the top 10 banks controlled 47.2 per cent of all receivables, and Mr Love estimates that they will probably control more than half of the market by the end of this year. This compares with a mere 37.3 per cent as recently as 1987.

Among the top banks, Citibank has become so large that it stands apart from the other banks. In 1988, Citibank had $22bn of receivables, followed by Chase Manhattan with $7.2bn, Bank of America with $6.6bn, Discover with $5.9bn and First Chicago with $5.5bn.

Citibank's growth is attributed, in part, to its successful and aggressive marketing.

While credit card companies are fighting for market share, debit cards have an increasingly strong presence in the US. Mr Love estimates that this year there will be 184m debit cards in the US accounting for 5.2bn transactions compared with 203m MasterCard and Visa credit cards accounting for 3.3bn transactions.

"When a piece of plastic is used more often it has a more important weight in the consumer's wallet," said Mr Love.

The banks, which at first offered Automated Teller Machine (ATM) services at no charge to customers and did not see the potential for much profits from these cards, are finding ways to cash in on their increased use.

It is not unusual for banks to charge 60 cents for ATM transactions for customers from other institutions. Consumers are willing to pay for the convenience. Many industry observers believe it is just a matter of time before debit cards are used for purchases at the point of sale.

Meanwhile, litigation is holding up the expansion of Entree, the debit card joint venture by Visa and MasterCard. The lawsuit, filed by 13 states in June in a Manhattan district court, alleges that the two companies conspired to prevent other companies from introducing a national debit card.

The 13 states have offered to settle and Visa and MasterCard have until December 6 to respond. Visa expects the deadline to be postponed.

The growing popularity of debit cards is unlikely to signal the end of credit cards. There will always be demand for credit card, said Mr Love, because there will always be people who want to spend money they do not have and there will always be merchants willing to pay 3 per cent for a sale which would not otherwise occur.

Charge cards may be drifting to the margins

A credit to the well-off

AMERICAN EXPRESS and Diners Club are the two oldest players in the plastic card market. Diners Club traces its pedigree back to the 1950s and in some countries, certain restaurants and retailers have been known to prefer Diners Club to Visa or MasterCard.

The changes in the plastic cards market in the 1980s might seem likely to consign the charge card issuers to the margins of the market. Their cardholder bases are much smaller than those of the larger bank card issuers. Furthermore, there is no current account relationship cementing the cardholder to the issuer. And some people believe that Visa or MasterCard, the banks' payment systems, can offer their customers at least as much as American Express.

Certainly, the numbers of their cardholders make both American Express and Diners Club look relatively small.

American Express, for example, has a cardholder base of 1.1m, but when company cards, gold cards, and the like are excluded, many in the industry believe that its base shrinks well below 750,000. Diners Club probably has about half this level.

Both Diners Club and American Express rely on identifying particular market segments and targetting them with the services they want.

"Diners Club has a very loyal customer base, much of which has been with them for a good many years. Diners Club cardholders are often well-off people who are fairly well advanced in life," says one bank card specialist.

Earlier this year however, American Express launched its Optima card in the UK and France. Optima is a credit card aimed at people who want to borrow large amounts at relatively low interest rates. On a loan of £2,000, the interest rate on Optima (taking into account the membership charges) is about 17 per cent.

The Optima card brings American Express into direct competition for the first time with the bank credit cards. It is aimed, like the Save & Prosper and Chase Manhattan Visa cards, at upmarket customers. Optima helps guard American Express's customer base against possible erosion by the low interest credit cards and to that extent, its launch was a defensive move.

In the US, Optima has been available since May 1987 and is one of the main plastic card suppliers of credit.

One advantage American Express has is that the Optima card is aimed at its own customer base. To qualify for Optima, a consumer must have a good credit record of at least one year's standing.

The card has had a high rate of take up of Optima, says Mr Alan Stark, managing director of American Express.

Alan Harper

Juergen Aumueller: launches American Express in Hungary

In France, where borrowing credit through plastic is a less strongly developed habit, Optima's progress has been a little slower, but is still described by Mr Jurgen Ammueller, head of American Express's European Operations, as very satisfactory.

Mr Stark says that there are indications that American Express customers are using Optima to switch away from higher rates of interest from other sources.

American Express has traded for many years on the idea that its cardholders are people who use the card to signal their financial status when they travel and who are rich enough to pay off their account in full each month.

This begs the question that the concept of an American Express card conflicts with this tradition of opulence. That idea is not one that finds favour with the company.

When Optima was launched, Mr Steve Goldstein, then head of American Express's travel related services in the UK, said: "It's a fallacious assertion that well-off people do not borrow. The question is when and how they borrow. With credit limits that start at £2,500 and go upwards, Optima is not a card for people who want to pay their supermarket bill. It's for large ticket items such as video cameras, living room furniture, and ski-ing holidays."

This strategy reflects market forecasts that traditional charge card and travellers cheque business will decline in importance and the role of lending will grow.

In 1988, about 70 per cent of the profits of American Express's travel related services came from charge cards and travellers cheques. By 1993, this is expected to shrink to about 57 per cent.

One outside consultancy report, which seems to have the blessing of American Express, predicts that by 1993 there will be 5.6m Optima cards world-wide, about one-fifth of American Express cards.

Meanwhile, the drive for marketing ideas and for untapped segments of the market continues. Last year, marketing ideas included automatic purchase protection insurance for three months on all goods purchased with the card and a Gold cardholders' dinner at the Savoy after an evening with the Bolshoi Ballet.

This year, American Express launched a Mediterranean golf championship. It has relaunched its card along lines tailored to the needs of smaller companies and gives more audit information about purchases.

Diners Club has launched an air travel card in a venture with Scandinavian Airlines.

Target segments on whom the company has its eyes are traditional business customers; young university graduates and women and the old.

American Express's problem in the market is that it is not a deposit-taking bank, and though its customers pay annual charges on their card, the economics of the business force it to charge retailers higher commissions on each transaction than the banks.

As a result, though retailers like the access to up market customers which American Express brings them, they dislike having to pay transaction charges believed to average 4 per cent, or more than double the average commission on Visa or MasterCard.

American Express's retailer network in the UK has grown steadily. A year ago it numbered some 120,000. It has grown to over 165,000.

In Europe, fears that American Express might be locked out of the single market by an inter-bank cartel have somewhat receded.

Mr James Larkin, executive vice president, has emerged as a vociferous advocate of the European Community's goal of completing the internal market by 1992.

"We have been in Europe for over 100 years and we believe that American Express is well positioned to serve the needs of European customers for a comprehensive range of Europe-wide services. American Express has the only pan-European customer base of any major financial services company."

Meanwhile, American Express is also looking eastwards to the emergent Soviet and eastern European markets. The number of retail outlets in eastern block countries accepting American Express jumped by 30 per cent this year.

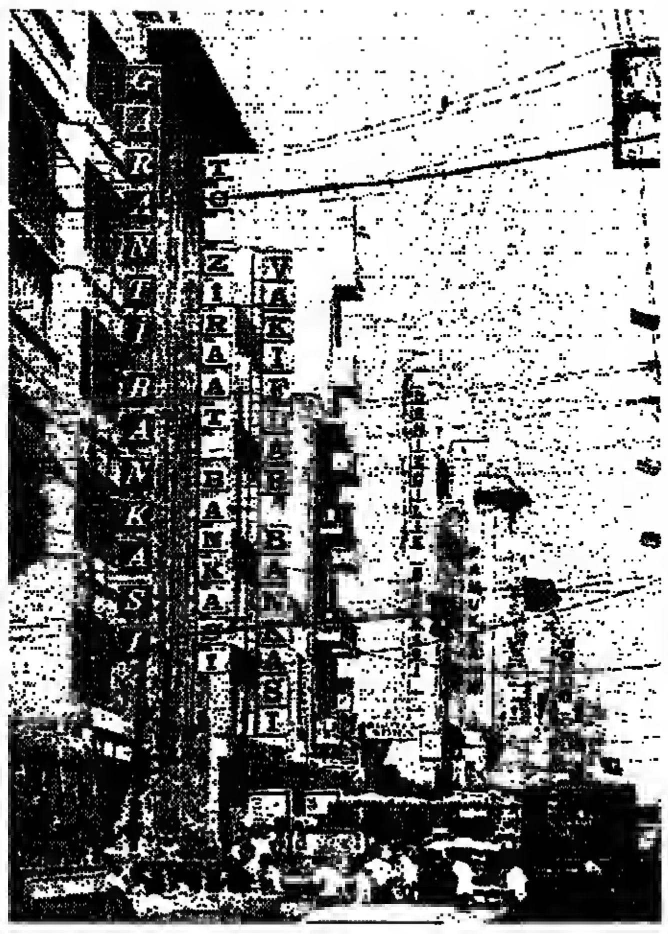
In November, Mr Aumueller signed an agreement in Budapest with the travel company Ibusz, which made the card available in Hungary. In June, American Express launched its first corporate card in the USSR.

SECTION III

FINANCIAL TIMES SURVEY

Political imperatives have continued to vie with economic good sense in the erratic implementation of well-intentioned reforms this year in Turkish banking and industry. The latter most lags behind in the drive for European Community membership, reports **Jim Bodgener**

Pace of reform intensifies



■ TURKEY'S newly-elected president Turgut Ozal, formerly premier, pictured here alongside a view of Adana's banking district, has pledged there will be no U-turns in structural adjustment policies, including a thorough overhaul of the financial sector. The pace of change has rather accelerated – sweeping reforms, including stricter capital adequacy ratios, aimed at bringing the sector in line with EC standards by 1992, will be introduced by end-1989. Other fundamental reforms, including outlawing insider trading in theory if not immediately in practice, on the Istanbul stock exchange, are embodied in a new capital markets law due also to be introduced soon. Both are aimed at deepening and strengthening the base of financial services. But change will not arrive overnight; many inefficiencies remain, balance sheets are still opaque, and a millstone of bad-debts especially burdens state institutions.

Hard-pressed by over-liquidity and slack foreign exchange trading, the banks are reaching out for broader-based lending avenues.

☐ *Pictures by Terry Kirk*

CONTENTS

☐ *Editorial production: Michael Willshire*

TURKISH BANKING AND INDUSTRY

REFORM AND overhaul in the Turkish financial and industrial sectors has been pivotal to the structural adjustment programme in the 1980s.

All the indications are that President Turgut Ozal will push no less hard as president for his vision of Turkey as a major world-ranking financial and trading partner in the 21st century than he did as premier.

Despite economic deterioration and the government's electoral unpopularity, the bewildering pace of economic reform has picked up this year - to the extent that senior ministers claim that Turkey is near the end of its structural adjustment path in the 1980s, and far down the road in adapting to EC standards behind its application for full membership of the Community.

Foremost has been an August convertibility package by which, claim senior officials, the lira has been made 80 per cent convertible. This followed on from the introduction in the spring of a central bank gold market which knocked the bottom out of the lucrative smuggling trade.

The convertibility package was accompanied by sweeping revisions to the customs regime. Pending are major amendments, probably before the year-end, to the banking and capital market laws.

However, buffeted financiers and entrepreneurs are calling for consistency and fair warning in government planning. The private sector thinks ad-hoc responses to electoral pressures have been cloaked in lip-service to the principles of structural adjustment propounded by the World Bank and IMF.

More reassurance than ever is needed in view of the jealous factionalism unsettling the ruling Motherland Party (ANAP) after the president's inauguration, and his surprise appointment of former speaker Mr Yildirim Akbulut as premier.

Change has run deepest in the banking sector, although the overhaul of state institutions is far from complete. Despite tha governmant's claims, the transformation of Turkey into a world-ranking industrialised power still has a long way to go.

The overall rise in industrial exports is often cited as evidence by the government that industry has been turned around by the export drive. Industrial goods accounted for 76 per cent of all external sales last year, compared with 48 per cent in 1981, whila over the period, total sales rose by 247 per cent to $11.66bn.

But the concentration of exports in relatively few markets, and in consumer goods vulnerable to rising protectionism in OECD countries, clearly indicates the need for an integrated and consistent industrial development strategy.

Investment levels

A large proportion of the export-oriented prodnction increases is anyway accounted for by industry taking up slack in capacity utilisation after the recession-blighted late 1970s. Actual new investmant in manufacturing industry has fallen back behind 1985 levels, and by a projected 7.8 per cent between 1988 and 1989, to TL3.3 trillion at 1988 prices, because of high borrowing costs and reduced demand.

Total industrial sales could fall by as much as 20 per cent from last year. There was a sharp decline in output in the first two quarters, bottoming out into a shallow trough in July. Output has recovered only slowly through August and September. However, growth estimates for industry differ from the two important government sources: 0.1 per cent from the State Institute of Statistics, compared with 3.4 per cent from the State Planning Organisation.

Even one of Turkey's largest industrial conglomerates, the Koc Group, has made few major fresh investments for the past two years. Apart from committed automotive expansion, it has only injected sufficient funds to sustain current capacity use,and to remove bottlenecks.

Not wbolly indifferent to industry's plight, the Government recently revised investment incentives npwards. Already fluttering encouragingly, demand is expected to pick up again on the strength of the 1990 budget and economic programme approved recently by parliament, which points towards a return to growth through some reflation.

However, recovery will depend on strict discipline in the state sector. The state economic enterprises (SEEs) have done much to shake off their reputation of being industrial dinosaurs, bnt substantial obsolescence, overmanning and sbeer managerial inefficiency remains. Yet if the Government's privatisation programme appears to be flagging, it is because the first two fully-fledged SEE candidates, petrochemicals agency Petkim, and textiles agency Sumerbank, now have to be digested.

Inflated labour costs have added to industry's woes, concentrated in the public sector. They have leapt by an average of 193 per cent as shop-floor trade union militancy, which has been suppressed since the 1980 military conp, forced a government chastened by local election ronts to backpedal in spring and summer.

Inflation has already ontstripped these. Grumbling amongst rank-and-file is snapping at the heels of the old-guard leadership of the moderate Turk-Is confederation. It commands around 1.8m of the total 2.5m unionised workforce in strategic industries.

Banking criticism of government policy is less acute than criticisms from industry, perhaps because the major commercial banks have only themselves to blame for their predicament. Rapacious interest rate competition when the government freed deposit rates in mid-October last year overburdened the banks with lira liquidity.

Foreign exchange has been an unattractive avenue throughout the year because of slack lira depreciation braked by the central bank's record foreign exchange reserves, and the abundance of hard currency due to current account surpluses.

A feared run on the banks when the high-interest deposits matured last month did not happen, however, most being rolled over in the banking system. The downward trend in rates has continued, breaking through the psychological barrier of 60 per cent late in October.

This could be a sign of maturity, since banks bave preferred to offset the high cost of funds with increased profitability, rather than irresponsibly chasing deposits. A welcome spin-off is the search for alternatives to risky mainstream corporate lending in more sopbisticated products like consumer credit. Electronic hardware and modern management tecbniques bave long been the rule rather than the exception in the sector.

But there is acute apprehension about pending reform of banking laws. Especially stiff opposition has come from the large retail banks to the proposed introduction of stricter capital adequacy ratios along the lines of the Cooke report - 8 per cent in stages by 1992 from 5 per cent this year.

The major institutions say Turkey's banking sector is not sufficiently developed to implement such strict criteria. Non-performing loans still plague the sector, particularly in state institutions.

A big success story in 1989, however – partly as a result of these tribulations – has been the Istanbul Stock Exchange, sapped by the Government's real interest rate policy in 1988. However, this year, the situation was reversed by the unattractiveness of other savings instruments like foreign exchange and deposits compared with the rapid increase in share values.

The entry of emergeot market funds following the opening of the exchange to foreign investors in August pushed the index to record levels. It remains to be seen whether the large institutional foreign investors will follow. The outlook, despite a mild bearishness due to political uncertainty, is optimistic.

Encouraging trends

The Ankara-bosed Capital Markets Board hopes these encouraging developments will be underpinned by amendments to the capital markets law introducing such reforms as a ratings agency and real-estate linked bonds – not to mention the prospect of making insider trading illegal.

Perhaps one of the most encouraging trends in 1989 has been the rise in foreign investment, in spite of the uncertain political outlook.

For foreign investors willing to take the long-view, inflation is not spiralling out of control, and there is evidence of economic stabilisation and resilience. But the short-term problem for the government is how to inject enough dynamism into industry and commerce without stoking inflation any higher than the present 73 per cent in the year to the end of October.

Application to the EC

Mismatch of perceptions

SOME TIME next month the European Commission in Brussels will give its formal opinion on Turkey's application for full membership of the European Community.

The general expectation is that the Commission will politely, but unmistakeably signal that the issue of Turkish membership of the EC should be put on a back burner until the 1990s.

To help save face on both sides, the response will not be the Commission's final word on the subject, but the first part of a reply in two stages. But in political terms, as far as national governments are concerned, the question of early Turkish membership will have been shelved for the foreseeable future.

Turkey lodged its application to the EC in 1987, despite strong warnings from its friends in the Community to wait. The economy looks unfitted for full membership

There seems to be no chance that the individual governments will do for Turkey what they did for Greece in 1976, and brush aside a lukewarm response from the Commission. There are too many serious economic and political obstacles – and Turkey is likely to be eclipsed, perhaps for many years, in the list of European political priorities by Eastern Europe. So what happens next in Turkish/EC relations?

Mr Ali Bozer, Deputy Prime Minister in charge of relations with the EC, says: "I do not know the reaction from the Turkish people. An encouraging response from the Community is very important."

The trouble is that the mismatch of perceptions between Turkey and the Community is so great that any encouragement in the Commission's reply is likely to be seen as little better than lip-service.

Turkey lodged its application in April 1987, despite strong behind-the-scenes warnings to wait from its friends in the Community. The country's economy looks obviously unfitted for full membership: GNP per capita is under £800 a year; just under half the workforce is still in agriculture; inflation is running at about 70 per cent.

The political situation is not much brighter. Western European public opinion regards many features of Turkey's internal political situation, especially its human rights record, as unacceptable. Migrations of Kurdish villagars to Enrope, claiming severe ill-treatment, have strengthened this opinion in the past year.

There is also European unease abont the growth of fundamentalism in Turkey (a phenomenon denied by most officials, bnt confirmed by most, though not all, foreign obsarvars). Turkish officials make it fairly clear that the country would try to continue its regional friendships with radical Middle Eastern regimes, even if it entered the EC.

A key test was the Salman Rushdie Affair, earlier this year. Though Turkey got off to a good start by coming down more strongly on clergyman calling for the death of Rushdie than (for example) Britain has done, local pressures fairly soon asserted themselves.

In September, Mr Ozal flew into Ankara from Strasbourg where he had addressed the European parliamentarians on human rights and signed a cabinet decree banning "The Satanic Verses." Officials in Ankara variously describe the ban either as "normal and unimportant" or as a response to Islamic pressures at home and in the rest of the Middle East.

Finally, there is a sort of negative factor. Turkey's role in the life of Europe somehow does not conform to the average European's conception of the way a pluralist society participates in the life of the Continent.

Turkish lobby groups are almost non-existent and, when they do appear, they are usually blatant mouthpieces of officialdom, rather than full-blooded participants.

Even the opposition parties do not sound quite like their European counterparts. Turkish social damocrets who speak, however cautiously, at Kurdish meetings in Europe find themselves being booted out of their party.

The Turkish view is that Turkey is a strategically vital and staunchly loyal ally of the West whose function has been to underpin the military balance which made possible four decades of peace in Europe.

Turkey has been accepted by two of the main European clubs – Nato and the Council of Europe. The Council of Europe investigated Turkey's human rights situation in 1985 and gave the country a fairly clean bill of health.

Turkey's legal right to EC membership is enshrined in the 1964 Treaty of Ankara. Having been first among the latest spate of applicants for membership, it should be treated as first in the queue.

As for political or economic backwardness – EC membership is the quickest remedy for overcoming these. This last argument is especially favoured among Turkey's Westernised middle class, the heirs of Ataturk's reforms, which understandably resents the inclination of some Europeans to assume that the country's true identity must be Islamic and Middle Eastern.

To this, some Turkish officials, such as Mr Bozer, add the more ambitious claim that Turkey, once inside the EC, can act as a bridge or gateway between the Islamic Middle East and Christian Europe – "Turkey is very important in the rapprochement between the two," says Mr Bozer.

All this suggests that Europe is not as well understood in Ankara as it might be. Turkish public opinion is generally slow to catch on to the significance of new European trends – such as Glasnost – and their implications for Turkey.

Perhaps it is the media's fault. Their view of international affairs is remorsely, and usually misleadingly, Turcocentric. On the day the Berlin Wall came down, Ankara radio was assuring its listeners that the appointment of Mr Yildirim Akbulut as prime minister had been avidly followed in the European media. It seems almost cruel to point ont that, in fact, the event merited only 39 words in the entire British quality press.

Meanwhile, the Turkish application has produced some practical results. Nearly 300 people are at work in Ankara on studies aimed at harmonising Community and Turkish law. An Istanbul business group, the IKV, monitors developments in the Community, including preparations for the Single Market, and relays them to the business world. Eight committees, involving the private sector and the universities as well as the government, are studying the Single Market.

"A momentum has been achieved. If we are rebuffed, it may not be easy to revive it," says one official in Ankara. "Turkey cannot wait indefinitely and will want to know where she stands before 1992."

David Barchard

BALANCE OF PAYMENTS

	January-July ($m) 1989	1981	Difference $	%
Merchandise exports (FOB)	6,224	6,458	–234	–3.6
Merchandise imports (FOB)	8,330	7,926	404	5.1
Foreign trade balance	–2,106	–1,468	638	43.5
Workers remittances	1,370	852	518	60.8
Current account balance	71	–25	96	384.0
Total overall balance	774	128	646	504.7
Total change in reserves	–774	–128	646	504.7
IMF	–168	–327	159	–48.8
Official reserves	–606	199	–805	–404.5

Source: Central Bank

FOREIGN TRADE FIGURES

	January-August ($m) 1989	1981	Difference $m	%
IMPORTS	9,777	9,393	384	4.1
Capital goods	2,496	2,471	25	1.0
Consumer goods	773	709	63	8.0
Raw materials	8,506	6,212	294	4.7
EXPORTS				
Agricultural	1,136	1,175	–39	–3.3
Mining	258	200	58	29.3
Industry	5,560	5,737	–177	–3.1
Balance	–2,821	–2,279	541	23.8
BY COUNTRY GROUPS				
IMPORTS				
OECD countries	6,115	5,982	133	2.2
EC countries	3,693	3,904	–210	–5.4
Islamic countries	1,845	2,023	–178	–8.8
Gulf countries	1,400	1,737	–337	–18.4
Socialist countries	960	778	181	23.3
EXPORTS				
OECD countries	4,253	3,883	370	8.5
EC countries	3,282	2,937	344	11.7
Islamic countries	1,813	2,395	–582	–24.3
Gulf countries	1,052	1,576	–523	–33.2
Socialist countries	856	608	247	40.6

Export-import financing ratio – Jan-Aug: 71.2%; 1988: 81.3%; 1987: 72%

Source: State Institute of Statistics

Profile: President Turgut Ozal

A pragmatic move

SIX YEARS ago, Mr Turgut Ozal emerged triumphally as the country's civilian Prime Minister after three years of unpopular military rule. On November 9 this year, his ascent to Presidency occurred in a wholly different mood – of widespread electoral unpopularity.

The 62-year-old Mr Ozal took over the single most visible reminder of military rule since General Kenan Evren, who as armed forces chief, ordered the 1980 military coup. President Ozal is the second civilian president of eight in the Turkish republic's 66-year history, breaking with the tradition of military figureheads following the great nationalist leader, Mustafa Kemal Ataturk. He is the only President to be elevated from the premiership.

Although soma within the ruling Motherland Party's (ANAP's) higher echelons counselled against it, there were pressing and pragmatic imperatives for the presidential bid – that he probably would not win a third term as premier; and concern for his health after heart-bypass surgery in 1987.

His parliamentary election was tamely predictable, although boycotted by an ineffectual opposition as undemocratic, given ANAP's dismal rating in opinion polls. This poor showing is largely attribntable to the Governmant's failure to curb inflation. Otherwise it was constitutionally unstoppable through a simple majority on the third round of voting in the 450-seat house.

Yet his economic achievements in two premierships are undeniable. Since 1983, his free-marketeering, structural adjustment policies have fundamentally re-oriented outwards the previously closed and broadly command economy prior to 1980.

His successor aa Premier, former Speaker Mr Yildirim Akbulut, has pledged to continue the Ozal programme of reform in social, economic and cultural life.

On the external account, exports have risen steeply – fuelling a bumper current account surplus last year of $1.5bn with another of around $1bn likely in 1989. Turkey, as a result, is over the hump in the second half of the decade of foreign debt repayments rescheduled in the late 1970s and early 1980s.

Major power, transport and other infrastructure schemes have been initiated, epitomised by the opening of the second Bosporus bridge last year. But the monetary discipline needed to pursue high growth, at a time when external debt service costs were heavy, was breached by the political spending imperatives of an election year in 1987. The economy has never quite recovered since, and inflation spiralled upwards, remaining at 73 per cent in the year to the end of October.

To some extent, he can claim credit for a gradual return to pluralistic democracy, despite rapid economic expansion. This year, however, he was overtaken by popular frustration at high inflation, and a damning rejection in the dismal showing of ANAP in end-March local elections. Contributing to ANAP's downfall was popular distaste for his increasingly antocratic rule surrounded by close family and advisers, which appeared to be taking on Ottoman appurtenances.

Mr Ozal is the only president to be elevated from the premiership, says JIM BODGENER

President Ozal's appointment of a surprise successor as premier, immediately after his inanguration, did little to assuage fears that ANAP might split along factional lines, although the majority of ANAP members have, after acrimonious criticism, grudgingly accepted Mr Yildirim Akbulut, formerly speaker and a moderate right-winger.

He was clearly chosen as an overarching, yet obedient, solution by the new President, but many knives are still clenched behind his back in the hands of disappointed but stronger figures in the party.

However, it is clear that Ozal has not left the ring altogether, and may even be able to better referee the party from the supposedly apolitical position of presidency.

Glimpses of his plans have emerged in recent interviews. He stressed he would continue to confer every week with his successor, as he had done with Mr General Evren, and that he was entitled to chair cabinet meetings, under the constitution. He seems to have no intention of relinquishing control of economic policy, particularly the push towards EC full membership.

But he has admitted that among the Government's largest failings is high inflation. Perhaps inflation was the natural result of being forced to telescope into six or seven years development which had taken 100 years in Europe or the US – "I've told the IMF and the World Bank, yon should study the Turkish case as a textbook example whose experience developing countries could use," he says.

Although great economic strides had been made during his premiership, the most important had been in political liberalisation, he said, declaring his adherence to the three principles of freedom of thought, religion and conscience, and free enterprise as the democratic way forward for Turkey.

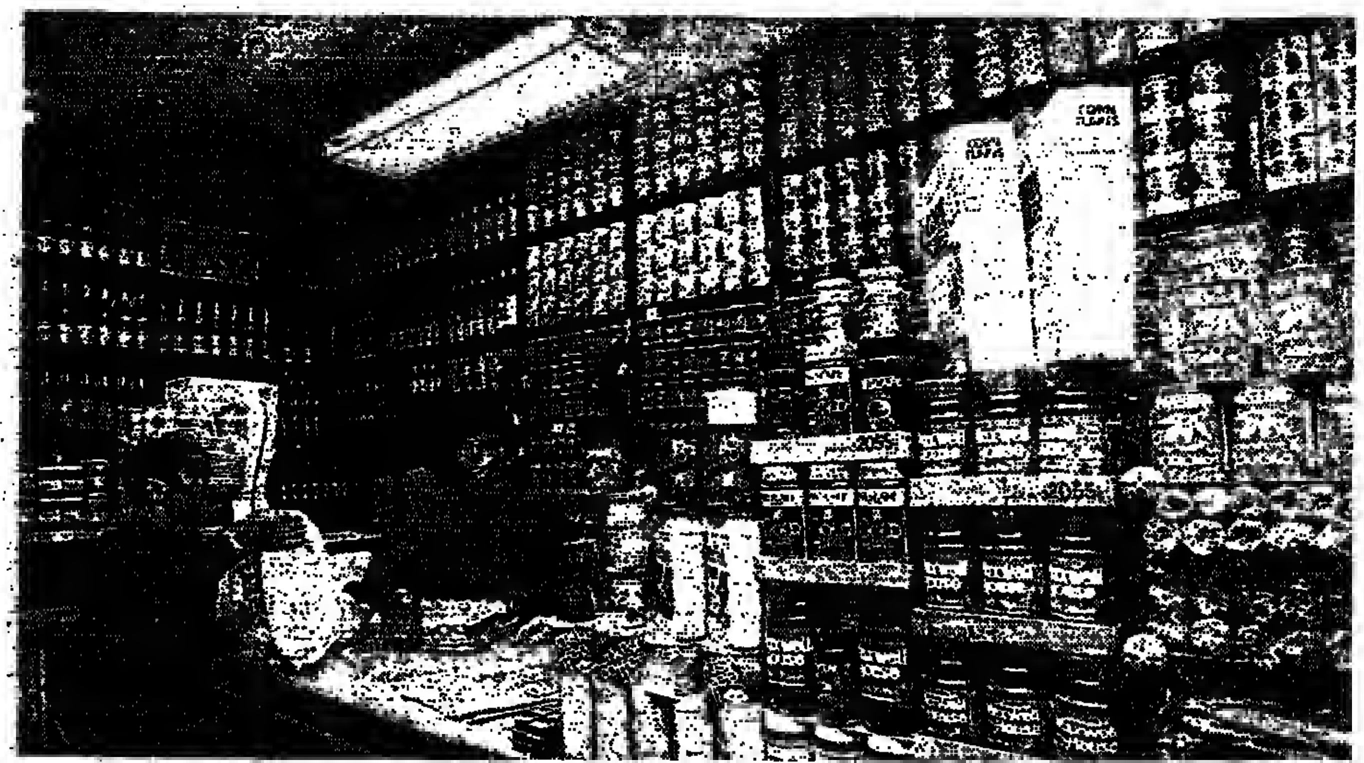
In keeping with utterances prior to the presidential elections, he said the restrictive articles 141, 142 and 163 against communist and religious parties could as a first step be limited to cases involving terrorism or forceful propagandising – their withdrawal would otherwise require revamping the whole constitution.

However, charges in a recent Amnesty International report that torture was still practised in Turkey, and that 10 died from it in Turkish prisons last year, were dismissed.

He blamed 'circles' in Europe which wanted to affect Amnesty International when the European Commission soon was to produce an opinion on Turkey's full membership application to the Community.

In his inaugural speech, President Ozal talked of establishing a human rights commission in parliament, however. And following his lead, Mr Akbulut in reading his new Govarnment's programme would work for wider freedoms, including reform of restrictive labour laws.

In addition, he pledged it would strive for a more equitable distribution of national income.



Imported goods on sale in Ankara: inflation is outstripping this year's public sector wage and salary increases

ECONOMIC OUTLOOK

Inflation rise curbed

INFLATION has been nudging slowly npwards since the spring, reaching 73.3 per cent in the 12 months to the end of October. It has been restrained from more rampant growth by several dampening measures introduced in the summer. Nevertheless, a significant decline seems unlikely in the short term.

Demand management appears to have failed, according to Professor Erdogan Alkin, head of the Economics Department at Istanbul University. Growth has been decelerated without any corresponding fall in inflation.

Part of the problem is the inflationary expectation of industry, especially in the private sector. However, the blame cannot fall entirely on its shoulders; the State Economic Enterprises (SEEs), which produce most of domestic raw industrial materials, have, to some extent, promoted these.

Another round of price increases is expected once the dust has settled from the presidential elections. And the summer measures included making industry's import costs cheaper by import dnty rednctions right across the board in the summer and early autumn.

The budget deficit increased to a record TL3.4 trillion (million million) in January-September, 88.8 per cent more than in the same period in 1988. It is not likely the TL4.4 trillion target will be met.

The crux is a burgeoning over the summer months of the budget deficit since July by aronnd TL2.5 trillion, reflecting annual salary increases to civil servants of an average of around 190 per cent, a temporary increase in interest ontflows with payments bunching, and transfers to the state economic enterprises (SEEs).

That has been reflected in a massive increase in the cash deficit, which the government has been forced to cover by internal borrowing. In the first eight months of 1989, compared with January-August 1988, bond issnes rose by 224 per cent to TL5.4 trillion, amounting to TL 3.4 trillion net.

The government's public sector borrowing target this year of around 5 per cent of GNP is clearly optimistic, given the financing needs of state economic enterprises. The treasury agreed with the central bank, in a much vaunted protocol in the summer, to stop receiving advances from the latter. However, it seems that the treasury has been borrowing of late, though well within an agreed ceiling of TL3.5 trillion.

To some extent the increase in *cash in circulation* to a record TL 8-9 trillion has been due to wage and salary handonts to civil servants and workers when the Government back-pedalled in the face of rising union militancy. Bnt, at the same time, it has also been dne to purchases of foreign exchange by the central bank, which has reserves that have never been stronger. The money supply increase has not been wholly inflationary, economists point out – it has gone for a large part into lira deposits rather than chasing falling industrial ontpnt. However, personnel expenses have more than compensated for cuts in public spending, particularly in the project sector.

The 1990 budget posits a deficit of TL 9.4 trillion, based on an assumption that tax revenues will increase in real terms by more than 10 per cent compared witb 1989. However, howls of protest from industrial lobbies have already forced the government to reconsider draft legislation withdrawing interest relief. Western creditor interests say it might do better to reduce the public sector deficit throngh better productivity and higher revenues from the SEEs.

All this bas taken place against drastically rednced growth in 1989. The State Institute of Statistics' first estimate, based on the first six months, was that growth would work *out at around 0.2 per cent*, a slump even from tbe low growth of 3.4 per cent in the context of recent years registered in 1988.

Now officials are more optimistic, projecting an expansion in GDP by 1.8 per cent. Despite drought-ravaged agricultural production, it could even work out higher, on the basis of electricity prodnction and an increase in industrial output in the autumn from a transient recovery in demand due the wage and salary inputs. Next year, taking into account the very low base this year, the target of 5.7 per cent is not so over-optimistic, though there are fears of politically-inspired reflationary growth.

Jim Bodgener

Hugh Carnegy discusses foreign debt

Credit rating improved after prudent borrowing

FOR A country that, less than a decade ago, was one of the first to acquire the stigma of rescheduling its foreign debts, tbese are times of welcome change for those in charge of managing Turkey's foreign exposure.

A strong balance of payments performance over the last two years, coupled with prudent borrowing policies, have enabled Turkey to reduce overall foreign debt, improve the term mix, diversify tbe instruments it uses, bring down the prices it pays and broadly improve its credit rating overseas.

Mr Tuncay Altan, External Ecooomic Relations chief in the Prime Ministry's Treasury and Foreign Trade Department, said he was amazed – and pleased – to see Turkey placed ahead of Kuwait and the United Arab Emirates in a *Euromoney* magazine country credit rating published in September.

There is a rather large fly in this otherwise soothing ointment

There is a rather large fly in this otherwise soothing ointment in the shape of the big domestic borrowing requirement which, thanks to the as-yet unbroken vicious cycle of high inflation and gaping budget deficits, threatens instability in the future. But, for the time being at least, Turkey is not unreasonably pleased with itself, for its handling of the external side.

The dominant factor, both this year and last year, has been a very positive balance of payments picture.

In 1988, steady external growth and near stable imports narrowed the trade gap to less than $2bn, its lowest for 10 years. A surge in tourism receipts and other invisibles produced a current account surplus for the first time since 1973 of $1.5bn. This year exports have not performed so well, but good invisible earnings, including a rise in workers' remittances, should still produce a surplus of somewhere between $500m and $1bn.

Dr Ercan Kumcu, vice-governor of tbe Central Bank, argues that this trend represents a structural change in the country's external accounts which should persist: "Expenditures in the current account are almost constant, but receipts are increasing at a steady pace – from tourism, workers' remittances, services, external earnings from currency reserves and foreign investment . . . all depends on the trade balance whicb has been extraordinarily small for a country fighting inflation."

Backed by the surplus and strong reserves – it holds about $3bn in foreign currency and $1.4bn in gold – the Central Bank has been able to rednce the proportion of short-term debt to about 20 per cent of total external dues. These are due to come down below $35bn in the last quarter of this year from $37bn at the end of last year.

In this year and last, Turkey will have repaid about $7bn, of which about $4bn is principal. Similar figures are projected for next year. In line with the policy of borrowing to roll over principal only, and with a sharp cut in project borrowing, the foreign borrowing requirement is down by about one fifth to near $4bn.

All this has served to improve Turkey's position in international markets considerably. The memory of the bad old days of rescheduling, wben the horrible state of the country's external accounts was matched only by the state of its internal politics, has not been dispelled, especially among the European and US banks involved at the time.

But things have certainly changed: "We used to be afraid of going to the Finance Ministry or the Central Bank," says a Western banker in Istanbul: "We were afraid they would ask for a loan. Now we go and offer. Turkey no longer has to beg. It can pick and cboose."

One reason is the re-entry last year on the Turkish scene of the Japanese banks, out for the previous five years because of their own tough strictures on lending to re-schedulers. Operating mainly through co-financing with the World Bank and non-yen syndications, the Japanese have become prominent in lending to Turkey: "They are an instrument by which we have cut our costs down," says Mr Kumcu. "They are very aggressive in pricing and we try to make good use of that."

Turkey has indeed managed to wrestle down the price it pays for its loans. Whereas it was paying around 200 basis points above the London inter-bank offered rate (Libor) for a five-year facility in 1985, it is now down to the 135-145 range. Mr Kumcu says he would like to get prices down further, altbough a $200m three-year Central Bank loan priced at 132 points above Libor had to be withdrawn earlier this year for lack of interest.

There is also satisfaction at the ability Turkey has shown over tbe past two years to diversify its borrowing, issuing D-mark bonds in West Germany and Eurodollar instruments. Mr Kumcu is keen to tap the yen markets in Tokyo also.

It all seems a far cry from the grim times of the early 1980s. But tbe renewed stirrings of political instability associated witb Mr Turgut Ozal's unpopular move to the Presidency, and the shadow of the deep domestic fiscal imbalances are not neglected by the lending community: "You have got to watch tbis place 24 hours a day," said a wary US banker.

Hugh Carnegy

EXTERNAL DEBT ($bn)

	June 1989*	June 1988
Medium and long-term	28.7	29.9
(of which IMF)	0.132	0.299
Short term	6.4	7.7
Total	35.2	37.8

*Provisional

Source: State Institute of Statistics

Gross National Product

	Current prices – Ann change %		
	1989*	1988	1987
GNP	0.2	3.4	7.4
GDP	0.1	3.7	7.4
Agriculture	–10.0	7.0	2.1
Industry	1.5	2.1	9.7
Construction	2.6	2.4	6.7
Trade	4.5	3.7	9.5
Transport/communications	2.2	3.4	6.7

*First estimate based on six-month figures

Source: Institute of Statistics

National Budget (January – August [TLbn])

	1989	1988	Change %
Budget deficit	2,511	1,471	70.7
Cash deficit	3,754	844	344.6
Domestic borrowing (net)	3,402	944	260.4
Treasury bills (net)	542	550	–1.5
Advances and credits	1,578	1,242	27.1
Foreign borrowing (net)	–628	–836	–24.9
Other	–1,301	–1,056	23.2
Net error	161	13	–

INFLATION: Inflation in the 12 months to end of October was 73.3 per cent in consumer prices, and 72.8 per cent

Source: Institute of Statistics

Gunes Taner: hands-on control of economic policy

Profile: State Minister Gunes Taner

Man of strong convictions

STATE Minister Mr Gunes Taner clearly brooks little opposition – a characteristic that emerged soon after his appointment in the cabinet reshuffle after the ruling Motherland Party's (Anap) disastrous showing in the March local elections. One of his convictions is that the economy is in the last stages of structural adjustment.

Though appointed only recently to ministerial office, he ranks fairly highly in the hierarchy, and was a founding member of Anap back in 1983. His responsibilities include the treasury, central bank, state banks and privatisation.

Before his election in 1987, he was a vice-chairman of the party for three years, and a political and economic adviser to the premier for two. His credentials also include 11 years with Citibank until his election in 1987 to parliament.

During the recent selection of a prime minister on the elevation to the presidency of Mr Turgut Ozal, his was among the final short-list of eight names.

"My ultimate goal is to go as high as I can," he says.

He was among the original think-tank drawing up Anap's philosophy. It is a progressive party, believing in free-thinking, free-market oriented trade, and at the same time is nationalist and conservative, seeking to maintain traditional and family values – "that's what I am," says Mr Taner.

His views on the economy are equally forceful. He sees structural adjustment in the economy as broadly completed with the convertibility package introduced on August 9 as one of the final stages, bringing a free foreign exchange market into the country where the rates are determined by market forces.

Prior to that, the establishment of a central bank gold market put paid to disrupting volatility of the illicit but tolerated free foreign exchange market called "tahtakale" after a district of Istanbul.

The present equilibrium in the lira's foreign exchange markets will continue, helped by the fact that finally Turkish organisations are being allowed to borrow directly in foreign exchange.

The differential between foreign and local interest rates will force the banks to bring down lira lending terms. Then, rising demand for foreign exchange will be balanced by expectations of inflows from exports once made more competitive by lira depreciation.

These oscillations will maintain the foreign exchange equilibrium, says Mr Taner – he does not foresee any devaluation in the near future. On the contrary, the Government sees absolutely no need to intervene – "if the central bank didn't intervene, in fact the lira would appreciate by around 15 per cent," he says.

On inflation, Mr Taner says the Government looked at the causes after the disaster for the ruling Motherland Party in the local elections, largely because the electorate was fed up with high inflation.

It decided there and then that the state economic enterprises (SEEs) and the treasury would no longer be able to lean on the central bank for funding, while the public sector borrowing requirement this year would be maintained at around 5 per cent.

Spending cuts of up to 30 per cent were instituted across the board, while all but the highest priority projects such as the massive Ataturk dam and highways were slowed down.

"Inflation has come mainly as a result of rapid structural adjustment," says Mr Taner. "As the pieces of the economy fit together and balance, we expect a rapid fall in inflation," he adds.

However, this year several factors have been difficult to control. First, there were industry's inflationary expectations – "about 70 per cent of inflation is generated by the private sector," Mr Taner claims.

Next, the Government had to increase civil servants' and workers' salaries by 193 per cent. And agriculture suffered its worst drought for the past 70 years.

The increase in the budget deficit over the summer, however, was not inflationary, maintains Mr Taner – "it all depends what you're doing with the money – we're buying foreign exchange," he maintains.

Jim Bodgener

Profile: State Minister Işin Çelebı

Technocrat in the top team

IŞIN ÇELEBI, the junior of the two ministers responsible for the economy, is the kind of politician who likes to insist he is "a technocrat, not a politician."

But there is no doubting his commitment to the view that Turkey's future lies with the young, educated and modern-looking generation.

Only 39, although he looks older, he says as Turkey moves toward an open market and an open society "the new managers will be young men open to new ideas".

He is thus very much in the Ozal mould. Like the president and former prime minister, his background is in economic administration (they went to the same Istanbul Technical University and worked in the same government department), and he is firmly wedded to Mr Ozal's attempt to take Turkey's economy along the free market road.

Mr Çelebi's university training in metallurgical engineering took him to the State Planning Organisation's economic planning department as a technical expert responsible for the iron and steel industry. At the same time he studied economics at Ankara University before joining iron and steel company Metas, where he worked first as an adviser and then as president.

Two years ago he turned to politics, and was elected to parliament for the ruling Motherland party. He represents the Aegean port of Izmir, an industrialised region. He then worked as a senior party manager and served on the Turkey-EC joint parliamentary commission, a body of parliamentarians seeking to foster improved relations between the two.

Işin Çelebi: very much in the Ozal mould.

In April this year he was appointed minister of state responsible for the State Planning Organisation, which has a wide remit to guide the economy as well as state industries, and head of the Monay and Credit Commission. He and Mr Gunes Taner replaced the brother of the president, Mr Yusuf Bozkurt Ozal, in the wake of the Motherland party's resounding defeat in the March municipal elections.

This month's cabinet reshuffle saw Mr Çelebi retain both his post and the task of tackling Turkey's economic problems. He sees two crucial difficulties: lack of investment and low productivity. The solution seems to be creating a more market-oriented economy and encouraging on openness foreign investment.

He would like to see foreign investment rise to a level comparable with that of Spain, and recognises that such investment often brings a transfer of technology and better management methods, and hence a rise in productivity.

Mr Çelebi draws a parallel between political and economic freedom. Turkey is now a real democracy, he says, and he points to recent measures such as liberalising rules for foreign investment and making the Turkish lira more freely convertible. And with freedom will come development.

"Development depends on free-thinking and foreign investment and technology," he says. Liberating the entrepreneur and the competitive spirit might be his watchword - "the crucial thing is to be ready to compete. Competition will create dynamism in the economy."

Nevertheless, he admits that the Government faces a tough task in trying to tackle inflation. He points out that inflation has fallen from 86 per cent last year to around 65 per cent, but says he is aiming for an inflation rate of around 25 per cent within two to three years.

At the same time, he expects a revival in the economy, with the growth rate up to 5 per cent from the 3 per cent expected this year. He outlined recently the kind of leaders he thought Turkey deserved in the post-Ozal era. He said they should be "dynamic, enterprising, reforming, respectful of traditional values and democracy, and they should work as a team." There is no doubt he sees himself as part of that team.

Tony Huckle

The pathway to full convertibility of the Turkish lira

A long and difficult road

THE TURKISH anthorities have an amhitious long-term aim: to establish the full convertibility of the Turkish lira. They see it clearly in the context in which all the reforms and restructuring of the economy in recent years have been set – the internal and external liberalisation that will induce market-led growth and closer integration, especially with the European Community.

It is a long road to travel for a currency with such a small stock of credibility, undermined by years of restrictions, controls, local market distortions and, of course, inflation. But the path has been set and this year has seen the introduction of a number of measures intended by the Government as a significant step in the direction of convertibility.

These measures, many of them part of a package produced in August, include:

- Allowing Turks to buy on demand up to $3,000 from banks, a threefold increase;
- Lifting restrictions on the import of gold and other precious metals (there is very heavy demand for gold in Turkey, mainly as a personal savings investment);
- Allowing banks to buy and sell foreign exchange on credit;
- Allowing exporters greater freedom to ntilise their foreign exchange earnings;
- Allowing foreign investment in Turkish securities, with guaranteed repatriation of proceeds, and allowing Turks to invest capital abroad np to $25m, including investments in the main international stock markets.

The timing of the introduction of what was, certainly by the standards of not many years ago, a radical set of liberalising measures appears to have been well chosen by the Government.

This year, the steep depreciation of the TL, at least in line with inflation which had previously been the typical pattern, slowed markedly and the TL strengthened relatively against the big currencies. The differential between the domestic inflation rate and the rate of depreciation this year has been around 40 per cent.

At the same time there has been an impressive accumulation of foreign currency in the system. Between them, the commercial banks and the Central Bank were this antumn holding around $6bn in foreign currency, with the Central Bank boarding a further $1.4bn-worth of gold.

The reason for this flush of foreign exchange lies in several factors. This year the lack of growth bas cut the flow of imports and hence demand for foreign cnrrency to finance them. Tourism receipts and remittances by Turkisb workers overseas have been strong.

The result has been a sharp decline in demand for foreign currency, reinforced hy the perception of a relatively stronger TL in which it is still possible to get good returns on deposits.

Such is the situation that the liberalising measures caused barely a ripple in the system. Indeed, the Central Bank says it has had to intervene in the markets against the TL to stop it strengthening still further.

Sceptics – especially among the foreign banking community – tend to scoff at the notion that the TL is suddenly approaching full convertibility as a result of recent measures. They say it will be a long time before you can walk into a bank in Frankfurt with a case full of TL and get a decent rate of exchange, or – more seriously – set contracts with foreign companies in TL.

Then there is the question of how sustainable the TL's current position may be. Some foreign bankers regard it as being some 20 per cent overvalned, engineered there by the authorities (despite protestations to the contrary by the Central Bank).

Holding it there may become difficult, especially as the influential and important export sector is already complaining loudly about the consequent squeeze it has felt this year. Some bankers fear a sudden turnaround in which a run on the TL, stoked by the new foreign exchange rules, could put great pressure on the Government.

Officials take a much less pessimistic view. They point to the large currency reserves as a sufficient buffer against any such switch in demand away from the TL. They point also to October 1988 when a speculative run on the TL was halted abruptly, burning many an Istanbul foreign exchange dealer, by heavy intervention by the Central Bank buying up the local currency.

"Ontsiders are still suspicious abont how sustainable this whole thing is," says Mr Ercan Kumcu, vice-governor of the Central Bank. "That is our task now. To convince them that it is and that where we want to go is attainable – the Turkisb lira as a means of exchange in international markets."

Hugh Carnegy

Bank profile: Iş Bankası

Deeply embedded in Turkish history and society

"IS," so Is Bankasi likes to tell the world, is Turkish for business. By Turkish standards, Is Bankasi is about as big as business can get. With total assets of TL8,506bn (£2.36bn), its balance sheet is exceeded only by Ziraat, the state-owned bank used to fund the agricultural sector.

Its banking operations do not tell the whole story. Is also owns an industrial empire which far outstrips either Koc or Sabanci, the two giant conglomerates of the Turkish private sector. At the end of 1988, Is Bankasi held equity in 118 companies with a total capital investment of TL371.1bn. Turkey's sizeable glass industry belongs almost entirely to Is. It also plays a leading role in cement, metal products, metallurgy, the motor industry, textiles, chemicals, plastics, food, and tourism, as well as having several more conventional offshoots in the financial services sector.

Is Bankasi is similarly deeply embedded in Turkish history and society. It was established on Ataturk's orders in the 1920s by Celal Bayar (who later went on to be successively president and prime minister before dying aged 104 two years ago). Its institutional culture was established in the 1930s and until recently has changed only slowly.

Even the bank's ownership is baffling to the outside world and as a result foreign bankers in Istanbul sometimes label Is as a self-perpetuating management. Shareholders' equity of TL300.1bn is divided between the bank's own pension fund which owns 38 per cent, the President of the Republic's 28.8 percent (these shares go back to Ataturk himself), the Finance Ministry's 12 per cent, and 23 per cent owned by 25,000 individuals.

Despite the 40 per cent owned by the state, Is has been insistent for many years that it is a private sector institution and not a state bank. Its 11-member board of directors, however, is a roll call of the Turkish establishment, including several ex-ministers, a universally respected retired general, and two former chief executives of the bank.

There is only one executive director, Mr Unal Korukcu, who became chief executive last year. Executive directors are as yet something of a rarity throughout the Turkish banking world.

Its dominant place in the Turkish banking world meant that Is Bankasi traversed the first half of the 1980s with relatively few changes. Its long-standing and often rather complex relations with its customers remained in place despite the impact of realistic interest rate policies after 1980. Is was a prized partner for foreign investors from Bankers Trust to Pirelli seeking a joint venture in Turkey. The management, it is probablyfair to say, did not change greatly. As with other large Turkish banks, Is's top management tend to spend their lifetime with the bank. The bank offers its employees access to social facilities which offset relatively low salaries.

In 1988, however, came the requirement for Turkish banks to be externally audited. Is produced its first externally audited results with Arthur Anderson. The result was, broadly-speaking, rather creditable. Pre-tax profits rose from TL62.8bn to TL145.1bn – in dollar terms, an increase from 62m to 79m, though it represents a fairly meagre return on total assets of around 1.7 per cent.

Is Bankası has a dominant place in the Turkish banking world, says David Barchard

Nevertheless it is difficult to read Is Bankasi's 1988 profit and loss account without certain figures striking the eye. Aprofit of $7.5m on foreign exchange operations in 1987becomes a loss of $6.7m in 1988. A loss of TL209,396min 1987 grew to TL278,110m £86.9m in 1988.Bad debts, however, are relatively small in both years: TL35bn in1987 and TL78.5bn in 1988.

Mr Unal Korukcu, chief executive of Is Bankasi.

Senior officials at the bank claim in private that non-performing loans are now down to around 3.5 per cent of the bank's total loan book. If so, this is something of an achievement. Is was badly hit by the main industrial failures in Turkey in the 1980s – "old banks suffer because of their old customers," sighs a senior Is Bankasi official. "Very small institutions are much easier to run."

It would probably be wrong to make too much of these figures. Certainly Is Bankasi's rivals in the Turkish banking sector are slow to point accusing fingers. Over the past few years, there may have been some commercial misjudgements amid a turbulent environment, but Is Bankasi is a major national institution traversing difficult ground in s period of change. The signals it has put out in the past few years indicate unmistakably that it is committed to change.

Indeed, in several ways Is has been a self-conscious agent of transformation in the Turkish banking sector. It has been among the prime movers in setting up a banking school, run by Citibank at Dragos, outside Istanbul. Mr Korukcu's predecessor insisted that the language of instruction in the school should be English to ensure that those who entered it were brought into contact with international banking attitudes and experience.

More recently Is has taken a 30 per cent stake in TurkMerchant Bank, a joint venture with Bankers Trust, which started operations last year. Turk Merchant Bank is a specialist inmergers and acquisitions – a financial services activity so farmore or less unknown in Turkey, and yet obviously urgentlyneeded.

The hands which have guided Is Bankasi for the past half century and more are still in charge and still confident of their ability to pilot the liner out of troubled waters.

Mr Korukcu, the present chief executive, is widely admired among his competitors in Istanbul.

"Frankly, the Turkish banking system is incky that it has a man like him in charge at IsBankasi," says the general manager of one of the new wave Turkish banks.

Turkish bankers agree that 1989 has been a weird year, says **David Barchard**

An over-stocked market

A FOREIGN CURRENCY famine in January drove commissions on foreign exchange operations up to nearly 30 per cent. Less than five months later, demand for foreign currency was so slack that, for the first time since 1980, the lira stopped depreciating against other currencies.

The present year has also been one in which positive interest rates, one of the original policy goals of Mr Ozal, have been quietly abandoned. In October last year, one-year interest rates to savers soared to 80 and even 85 per cent, to keep pace with inflation.

When the holders of the one-year deposits came to reclaim their funds in October this year, inflation was still around the 70 per cent mark, but interest rates were nearly 10 percentage points lower. The banks shuddered inwardly as the anniversary date approached. However, depositors, perhaps because yields on foreign currency deposits also seemed to be languishing, did not migrate *en masse* from the banks. As a result, the banks now look forward to what they hope will be a more profitable commercial environment, with less pressure on their margins over the next few months.

"It was not realistic to try and chase inflation with 85 per cent interest rates. It was a big mistake, especially in a market where banks can make use of only 56 per cent of their deposits," says one Ankara banker.

His remarks point up some of the long-standing paradoxes of Turkish banking. There are 60 banks in the country, but only a few of them have extensive branch networks to collect deposits. They are: Akbank (617 branches); Ziraat Bankasi, the state agricultural credit bank (1,231); Turkiye Is Bankasi (941); Halk Bankasi, a state bank which supplies credit to small businesses (680); Yapi ve Kredi Bankasi (586); Turk Ticaret Bankasi (409 branches); and Garanti Bankasi (294).

These are the major players in an over-stocked market, in which the easiest way to make a profit is to set up a one-branch operation in Istanbul, specialising in trade finance operations. Between them, the banks had a total lending book of TL29,768bn (about £8.2bn) at the end of August, up from TL22,518bn a year earlier, against total deposits of TL32,285bn, up from TL18,242bn a year earlier.

Most banks have plenty of wounds to lick. They now operate within an increasingly stringent regulatory environment.

With inflation at an annual rate of around 70 per cent and rates to borrowers still well over 100 per cent net, it is not surprising that the savings side of the banks' business is growing faster than their lending. However, their problems do not arise solely from inflation, but also from treasury and central bank requirements, which mean that nearly 44 out of every TL100 deposited with them cannot be utilised for making money.

"With demand for loans very low, because of the high cost of funds and the slowdown in almost all types of industrial activity, life is not easy," says a regretful Mr Erol Sabanci, deputy chairman of Akbank, the flagship of the Sabanci Group. Akbank led the sector last year, as it has done for most of the decade, with profits of TL306bn on assets of TL5,001bn.

However, smaller specialist banks, without deposit bases, claim to be able to make a much higher return on their assets. Mr Sabanci keeps ahead of his rivals among the larger banks by much tighter control over costs; more cautious accounting and lending policies; and a distinctly sceptical approach to changes in the market, which require expensive investments.

Most other large banks have plenty of wounds to lick. However, they now operate within an increasingly stringent regulatory environment. Their balance sheets are externally audited. Inter-group lending is discouraged (though perhaps not sufficiently policed).

The treasury and the central bank monitor their progress from week to week. Though lending is risky in today's environment, banks are more experienced lenders than they were when interest rates were first liberalised at the beginning of the decade.

Guesses about the percentage of non-performing loans in the total lending portfolio of the commercial banks are not easy to make. One senior banker puts the figure at around 15 per cent. Others suggest that it could be nearer 24 per cent. This is still much lower than in the mid-1980s when, according to reliable sources, it reached the 40-to-50 per cent range for the sector as a whole. For some individual banks, non-performing loans are still believed to be running around these levels.

The treasury monitors the performance of banks, and sometimes stages discreet rescue operations of minor players. Under Article 64 of the Banking Law, it can appoint its own nominees to bank boards, to run ailing concerns. In October this year, four banks, not all small ones, were said to be operating under Article 64.

The number and the names of banks under the treasury's wing is said to be changing constantly – though the names one hears mentioned seem much the same over the years. In mid-October, the Government announced plans for longer-term mechanisms to rescue banks in trouble and create a deposit insurance scheme with the power to rehabilitate banks.

The plan, like most innovations in the Turkish financial sector in the 1980s, seems to have been designed by the World Bank, which reportedly linked the proposals to a recommended restructuring programme. A $200m financial-sector adjustment loan seems to have been tied to Turkey's willingness to go through with the proposals. An expanded deposit insurance agency (there is already some deposit insurance in Turkey) is one of the crucial threads in the proposals, though it also comes as part of a package, including new capital-adequacy rules. As usual in Turkey, an American model is envisaged – in this case the Federal Deposit Insurance Corporation (FDIC) – though with additional powers.

One of the obvious risks in a Turkish deposit scheme is that owners of ailing banks, who, in the past, have usually waited for the state to bail them out, might be emboldened by a deposit insurance scheme into making unwise loans.

Not surprisingly, some Turkish bankers are already asking themselves how the scheme will be paid for and whether – like similar ideas in other countries – it may not end up punishing the virtuous and protecting the imprudent from the consequences of their mistakes.

TURKEY'S TOP BANKS: 1988 ($m)

	Capital	Capital/assets ratio (%)	Profits	Assets
1 Akbank, Istanbul	454	16.5	186	2,756
2 Turkiye Is Bankasi, Ankara	344	7.4	80	4,628
3 T.C.Ziraat Bankasi, Ankara	322	4.5	95	7,191
4 Yapi Ve Kredi, Istanbul	170	6.1	65	2,774
5 Turkiye Emlak, Istanbul	143	4.3	33	3,292
8 Turkiye Halk, Ankara	116	7.1	na	1,634
7 Turkiye Vakiflar, Ankara	94	5.4	98	1,749

Source: The Banker

STATE BANKS

Still signs of serious deficiences

STATE banks in Turkey used to be synonymous with crippling portfolios of bad debts, tangled balance sheets and political complications. Since the mid-1980s, that image has sloughed off to some extent, but serious deficiencies remain – particularly in non-performing loans.

State banks are not being restructured, says Mr Gunes Taner, their responsible State Minister. Rather, better management systems are being introduced, in their loan portfolios, foreign exchange dealing, overhead expenses, professional liability and marketing.

The eight commercial state banks still account for more than 50 per cent of the business volume in the Turkish banking industry, as of June this year extending TL17.5 trillion (million million) out of the total TL31.6 trillion in credits. Of around 60 institutions, however, they accounted for TL1.6 trillion out of the total TL2.4 trillion in non-performing loans in the banking system.

The scale of the bad debt problem has been transparent since a May 1988 decree enforcing adequate provisions – this year until July, total provisions for the public sector amounted to TL920bn as opposed to TL1.3 trillion for the whole sector.

Most of the state banks' problems have come from non-cash credits, in the shape of commitments or guarantees for rescue operations or otherwise. Non-cash credits carry only small commissions, so default has negatively affected assets, too.

The problem in the past with state banks has basically been the misuse of resources – "This country has unbelievable resources," says a private sector banker. "And the state banks are one of the major channels putting them into use."

In the past, the state banks were manipulated unabashedly by politicians to their own ends – bailing out ailing state companies and other banks, and financing unviable development projects. "My idea in Turkey is that sooner or later there should be a taxpayers' committee to ask every bureaucrat and politician where the money has gone," the banker adds.

Now the new, young western-trained top management recruited from abroad in the mid-1980s is having to cope with that legacy – with mixed results – "they brought in fine theorists but inexperienced rookies when it came to bureaucratic evasion," says an Istanbul-based foreign banker. To some extent, that is unfair – where the newcomers have not attempted changes overnight, steady progress has been possible.

An object lesson for many has been Emlak Bankasi, formed from the merger of ailing Anadolu Bankasi and the profitable Emlak Kredi Bankasi in early 1988 as Turkey's third largest institution, charged primarily with funding housing development, particularly in satellite concentrations round the main cities.

Since then, however, it has not managed to shake off the millstone of bad debts inherited from Anadolu, resulting in allegations in the spring that profits had been claimed in advance on land deals far into the future.

On the other hand, Emlak's proponents counter that it is in the nature of a housing development bank to make a loss while it is still building and gearing up to unit sales, at which time the horizon will expand incrementally for the cycle of profits and fresh investment.

What is lacking in Emlak, observers feel, is integrated planning, both in the purchase of its land holdings, and in its structure. For example, McKinsey Consultants recommended two years ago that Emlak be restructured into a central holding company with satellite real estate, retail banking, and corporate banking operations.

Nothing concrete has been done about that plan. The problem lies in the relevant state ministry and the treasury in Ankara, not in Emlak's management, according to this account. Yet the mood in the capital is now hostile towards mergers, once proclaimed along with privatisation as a panacea for the state banks by Emlak Bankasi's former head, Mr Bulent Semiler. "I am not a believer in merging," says Mr Taner. "Mergers always have inherent problems."

An overhaul has also been under way at Ziraat Bankasi (Agricultural Bank - Turkey's biggest institution) driven by the quiet determination of its general manager, Mr Coskun Ulusoy, appointed two years ago. By concentrating on the bank's proper lending activities – to agriculture – and thorough rationalisation, Ziraat will still be able to show a good profit this year.

Not surfacing in the accounts is that 100 per cent provisions of around TL500bn ($250m) were made against bad debts in 1988. "But we don't worry about that, we are still the second most profitable bank in Turkey," says Mr Ulusoy. The bank's deposit base had grown since August – admittedly in harvest time – to total TL11 trillion ($3.6bn) in October.

Among Ziraat's accomplishments has been its drive for financial autonomy – this year, for example, the treasury was persuaded to repay all its outstanding debts totalling TL700bn. It has also started to shed its 97 subsidiary companies, many of which are loss-making and non-agricultural, by handing over ownership to the Mass Housing and Public Participation Administration. It will keep only an insurance company, which will then be devoted to agriculture.

Due regard to Ziraat's achievement has come from the international markets. At the end of June, it was able to raise a $140m floating rate note (FRN), the first credit it had sought externally without a guarantee from the Republic of Turkey – and this by facsimile, almost unheard of previously for the country. And in October it went on to secure a $250m loan from the World Bank to be complemented by the same amount from the Overseas Economic Co-operation Fund of Japan.

In October, the bank was able to reveal a number of new projects to the markets. These included a pilot scheme of six banking schools, a 0.999 pure gold coin on the model of the Krugerrand, farmers' credit cards, Visa and mastercards, automated teller machines (ATMs), special deposit paying in centres, a dealing room and personalised bankers services for high volume customers. It is also extending consulting services to its counterparts in Egypt and Nigeria.

Clearly, many lessons can be learned from Ziraat. Perhaps the most instructive is that solid progress in the Turkish context is best achieved by dogged persistence rather than flamboyant showmanship.

Jim Bodgener

☐ Above: headquarters of Etibank (left) and Halkbank (top right), in Ankara. Turkey's eight commercial state banks account for more than 50 per cent of the business volume in the country's banking industry.

☐ Right: Mr Coskun Ulusoy, the quietly determined general manager of Ziraat Bankasi, the large agricultural bank, which will show a good profit this year.

David Barchard on capital adequacy in banking

Aiming to meet world standards

AFTER a decade of reforms in the banking sector, the spotlight is finally focussing on the industry's underlying problem: capital adequacy.

This is a natural outcome of earlier changes in the sector. For several years standard reporting procedures have been in place for Turkish banks. Last year even the giants of the industry were finally prodded into accepting external auditing.

Though only two banks out of the total of 60 reported losses last year, nowadays it is fairly easy to understand the trading position of individual banks. But most, though not all, annual reports from Turkish banks omit the details Western shareholders tend to look up first – the ratios showing their capital strength and their operating efficiency.

Capital strength is a sensitive topic among many Turkish banks. Seven years ago, when the Treasury imposed capital adequacy requirements for the first time in Turkey, some banks struggled for more than two years before they could reach the targets laid down.

Even so the sector lags far behind international banking norms and much of the new capital coming into the sector has gone not to existing banks but to new enterprises.

"One of the reasons why the Central Bank has been so willing to encourage newcomers, both local and foreign to set up, is that this is one of the least painful ways to bring additional capital into the sector," says a foreign banker in Istanbul.

Until last year, capital adequacy issues in Turkish banking were on a backburner as the Central Bank and the Treasury proceeded with the gradual overhaul of a banking sector which had many more urgent problems, including the establishing of a modern supervisory framework and interbank markets.

That phase is largely over. Turkish banking is now confronted by a much more ticklish issue: how quickly can capital adequacy levels be brought up to the minimum international standards laid down by the Cook Committee?

And how can it be done? Many Turkish banks fall so far short of the BIS standards that bringing them into line is a daunting task.

"Many banks tie up their equity in participation stakes in equity and real estate," says Mr Erol Sabanci, deputy chairman of Akbank, Turkey's fifth largest bank by asset size but with profits nearly double those of any other.

"Whereas in this bank we have quite a substantial amount of real working capital," Mr Sabanci says, "it is quite easy to find other large Turkish banks without any at all."

Professor Selcuk Abac, a specialist on the Turkish banking sector, agrees. "The overall amount of capital in the sector is far too small and it is easy to identify leading banks which actually have negative amounts of free capital. All their capital is tied-up in illiquid forms. So liquidity crises are all too possible."

Key factors

A variety of factors lies behind this situation. Most company-owners in Turkey, including bankers, have until very recently generally preferred to cream-off profits from their banks for immediate use, rather than plough-back funds. Several of the best-known banks are linked to industrial groups which continue to use them (despite legislation imposing strict ceilings on inter-group lending) to siphon funds into other subsidiaries.

In a consistently inflationary environment, banks have also been tempted to keep their capital in real estate, which consistently keeps ahead of inflation, rather than risk holding it in liquid form. It is also arguable that the high levels of required reserves which the commercial banks are forced to deposit with the Central Bank, impose an obvious brake on their profitability and reduce their ability to recapitalise themselves.

Equity stakes in industrial ventures, another popular way of holding capital, has more risks than real estate.

Mr Sabanci warns: "Some banks own really golden participations in top quality companies. But some of the equity participations owned by the banks were acquired by them during bail-out operations and are really not worth very much."

It was to cope with this situation, that late last month the Treasury issued a long-awaited Communique on Capital Adequacy, laying down targets for the years between 1989 and 1992. By the end of this year, all Turkish banks must have a risk/asset ratio along BIS lines of 5.5 per cent. This is 2.5 per cent below the internationally agreed minimum laid down by BIS. Even so the Treasury believes that 17 banks are below the new minimum.

"We are going to put pressure on the banks to increase their capital. It is essential that they have a genuinely strong financial capability," says one Treasury official. "This is all part of a process in which Turkish banking is becoming steadily more integrated in the Western banking system as a whole, especially as Europe moves towards the Single Market."

So the minimum for the risk/assets ratios of Turkish banks will rise to 6 per cent at the end of next year, and to 7 per cent and 8 per cent respectively in the two following years.

The squeeze is also being put on the banks from other angles. Their ability to revalue their fixed assets against inflation is to be cut by annual stages until 1994 and their financial participations will be set against their capital. The new system will take into account the difference between the current market value of their stakes and their net book value.

With the writing on the wall, attitudes among the larger banks towards their subsidiaries are changing rapidly. Is Bankasi this summer has sold 40 per cent stakes in two of its subsidiaries and is believed to be considering further sales.

Other banks are stepping up sales of real estate. For several years now, several banks have used property sales as a way of bolstering their balance sheets and disguising operating losses.

A modest high-flyer

Mr Ercan Kumcu, deputy governor of the Central Bank, emphasises balance sheet health and hygiene.

■ **Banking personality profile: ERCAN KUMCU, deputy governor of the central bank.**

LIKE many of the young men brought in to staff higher echelons in the state financial sector, Mr Ercan Kumcu returned from US academia in 1985 to assist in turning state finances around. In November 1988, he was appointed to his present post. At 34, he is a modest high-flyer, writes Jim Bodgener.

"Things look very good for inflation as far as the central bank's balance sheet is concerned," says Mr Kumcu. "It has all the ingredients necessary to fight it. Our problem now is breaking public expectations of inflation, which most generates it."

The balance sheet is looking as good this year as it ever has. Credit to the public sector is minimal – the Treasury is a net payer to the central bank, rather than a drain. The increase in the central bank's assets comes rather from a net increase in foreign assets this year (to November 10) of TL4.3 bn, or around $2bn-2.1bn.

On the other hand, in net domestic assets of public- and private-sector banking, the interest is only around 12.7 per cent. As a result, the 38 per cent increase is a lot less than inflation this year (to end-October) of around 73 per cent.

"So we're basically printing more money, backed by foreign exchange," says Mr Kumcu.

Because of the slowdown in the rate of increase in the balance sheet, the less-liquid portion of the balance sheet is flowing into the more-liquid portion, or reserve money, the part which has the power to create money in the economy through the money-multiplier. Looking at the foreign assets increase, and lending to the public and private sectors, the central bank has much better restraint over credit expansion to the banking sector.

"Next year, we're going to be in even better shape, because of our power to control our money stock," says Mr Kumcu.

On the other hand, it is very difficult to control currency in circulation, which has increased rapidly this year, he says. Far better to attempt to control it in the context of either reserve money, or the central bank's money stock.

The central bank has least influence on the public sector borrowing requirement (PSBR), because, by law, it cannot refuse public sector borrowing demands. This year, credits are at a minus-10 per cent to the treasury, and negative by 50 per cent to state economic enterprises. "So the Treasury's behaviour as far as the central bank goes is simply superb," says Mr Kumcu.

PSBR is very important, he admits – but, underlying that, is the Treasury's ability to choose for its borrowing between the central bank and the markets. This year, encouragingly, it has been able to go to the latter.

More foreign banking institutions in Turkey

Profitable opportunities

THERE WAS a time, a few years ago, when a round of visits to the foreign banks in Istanbul could be accommodated comfortably in a day – with plenty of time left over for a leisurely lunch, watching huge Soviet freighters steam up the Bosporus, or a visit to one of the city's evocative Ottoman treasures.

Today, there are 25 foreign institutions operating in Turkey, their presence in itself a mark of how things have changed in the financial sector under the liberal economic policies of Mr Turgut Ozal, Prime Minister from late 1983 until his recent step up to the Presidency.

Foreign banks now make up more than one third of the total number of banks in Turkey – although their share of the market is still only about 3 per cent. Many prominent American and European names are there – among them Manufacturers Hanover, Bankers Trust, Citibank, Chase Manhattan, Standard Chartered and (soon) Midland Bank – as well as smaller outfits, particularly from around the Middle East.

They have come because of the opportunities to make money offered by the opening up of the Turkish economy – some of them have been very profitable indeed – coupled with the judgment that the restoration of political order after the 1980 military coup, which in turn spawned Mr Ozal's government, was likely to be long-lived. There is some renewed nervousness on this last point following Mr Ozal's bitterly opposed shift to the Presidency.

"My biggest concern," says a foreign banker in Istanbul, "is whether [Mr Ozal's ruling] Motherland party will stay together and, if not, what will be the fall-out. Economics and politics are so intertwined in this market that economic stability is directly reliant on political stability."

However, most foreign banks seem happy enough that the broad economic path established in this decade will continue to be followed despite political ructions in Ankara, and their chief day-to-day worries concern the vagaries of the market they work in and the regulatory conditions that apply to them.

To take the latter first, there is a long-standing grouse among the foreign banks that they operate on an uneven playing-field. The chief cause of irritation is the lending limits they face because of the capital provisions they must comply with. A bank's loan-book in Turkey cannot be more than double its own funds. It cannot lend more than 10 per cent of its equity to one company, or more than 25 per cent in one transaction.

These provisions are meant as a default protection. But as foreign bank branches have a relatively small capital base – and local laws do not take into account the guarantee of the parent bank overseas – foreign bankers complain that their lending ability is unnecessarily and unfairly restricted, especially as their main business is trade finance. The issue is compounded by the depreciation of their lira capital base by high inflation. Local banks are allowed to revalue their fixed assets each year, but foreign banks cannot.

A recent compromise offered to the authorities, that foreign banks should be allowed to revalue their original capital inpnt at current exchange rates, was turned down. "We were virtually told to re-capitalise," said one banker.

Another recent bone of contention is the introduction of a 10 per cent withholding tax on interbank deals. As the interbank market is the main source of funds for the foreign banks, which do not have the big deposit base of their local competitors, they are particularly peeved by the tax. The central bank is also unhappy, but the Treasury has refused to back off, even though it is reckoned that the measure will only raise a paltry TL20bn a year.

Despite these issues – and despite Turkey's being, in the words of another foreigner in Istanbul "insanely over-banked" – foreign bankers admit with a grin that they do make good money. Their staple has been in extending trade finance and working capital to big Turkish corporations and multinationals operating locally, as well as playing the local money markets.

Bankers say opportunities frequently arise from the market's characteristic volatility, with interest rates, for example, fluctuating wildly. Skilled operators – and foreign banks have, np to now, tended to have an edge on skill over their local rivals – can take advantage of short-term gaps. "If you are fast on your feet, you can make a lot of money before margins narrow again," says a middle-eastern banker.

Last year, everybody was able to cash in on huge premiums opened up by a strong demand for foreign currency, which made 1988 highly profitable. This year, a stronger lira, a slowdown in demand for import finance and a relaxation of foreign exchange controls have closed that window. But a recent decline in interest rates has perked up business in an otherwise flat year, when demand generally in the economy has been depressed.

For the future, the foreign banks see increased opportunities in fee-generating areas, such as privatisation issues (something that some have already taken advantage of) and mergers and acquisitions, as foreign investment increases and local business prepares to cope with the approaching single market within the EC. Significant liberalisation this year has also opened the way for two-way flows, in and out of Turkey, in the securities markets.

Hugh Carnegy

Istanbul's miniscule exchange bounced back from the doldrums last year – but will foreign investors take the boom further?

Istanbul Stock Exchange

Big rise in volume

AFTER two years in the doldrums, with trading depressed and price-rises negligible, Istanbul's tiny stock exchange soared this autumn.

In September, the index reached almost five times the level of a couple of months earlier, and was more than 50 per cent above the previous high of August 1987. More important, for a new market struggling to reach a viable level of activity, volume was up dramatically at TL30bn a day, compared with only TL300m earlier this year.

This heady rise was sparked off by a decision in August to open the market to foreign investment. Foreign investors were permitted to repatriate profits from share-dealing, and no longer needed permission to buy shares in Turkish companies, provided they did not gain management control.

Investors specialising in emerging markets decided this was the time to strike, and foreigners are now thought to account for about 15 per cent of the market.

At the same time, several local factors came into play, not least an expectation that the market would rise with an influx of foreign cash. Further, the yield on bank deposits fell to below the rate of inflation, as did that on commercial paper; and the stock-market began to be seen as the one instrument capable of beating inflation, now running at about 65 per cent a year.

With both foreign and Turkish investors seeing stocks as undervalned, the release of pent-up demand into a thin market (the market is more than a hundred times smaller than London's), sent share prices soaring. The index rose from around 700 in August to a peak of 1,900 in September. Since then, it has eased back to around 1,650 with profit-taking, and because of political uncertainty surrounding the elevation of Mr Turgut Ozal to the presidency and the uppointment of a new prime minister. Volume, too, has fallen back to about TL15bn a day.

But, as the political situation stabilises with the appointment of a new government, demand from both foreign and local investors is expected to continue to outstrip supply and to maintain upward pressure on prices.

There is no doubt that the boom has fuelled excitement among Istanbul investors. So mnch so that, earlier this month, the stock exchange had to limit the numbers admitted to the trading floor. Even so, crowds gather daily in the street outside the exchange, to watch the price displays of leading stocks and to discuss the latest movements.

Despite this interest, Turkey has a long way to go to achieve the level of investor interest seen in more advanced countries. One problem is that tax deters institutions from buying shares. Earnings from government bonds are free of tax, while those from other investments are subject to corporation tax at 46 per cent.

"That is stopping all types of institutions investing," says Mr Melih Sensoy, assistant general manager of the stock market. "When that changes, you will really see an explosion in the market. I believe the tax law *will* change, but when you cannot tell."

It is hardly surprising then, that, of 30 mutual funds or unit trusts in Turkey, only one is in equities. Equally unsurprising, this one fund is this year's top performer – showing a 184 per cent rise, and prompting others to consider adding some equities to their portfolios.

Hitherto, mutual funds have fought shy of the Istanbul exchange. They fear that the volatility of a market where prices can rise and fall by 10 per cent u day will frighten off an unsophisticated pnblic, used to seeing a steady but dull return on their money.

Education of the pnblic is seen as a key to the stimulation of investor interest. Brokers complain that clients know little about the workings of a stock-market, sometimes confusing bonds with equities, and usually looking very short term. The answer, many feel, is a regular television programme on the stock-market, but this has yet to materialise.

If investors have yet to learn about the stock-market, this is even more true of businessmen. Most Turkish companies are family-owned, and only a tiny proportion of their equity is publicly-traded. Of the 50 companies whose shares *are* traded on the senior exchange,

Continued on Page 8

INSURANCE SECTOR

Wide reforms are planned

INSURANCE IN Turkey is a market on the threshold of fundamental reform and expansion, such as the banking sector passed through in the early 1980s – and one which foreign penetration will most probably spearhead, too.

But, so far, the industry is hidebound by fixed rates and diffident public attitudes, which it hopes will soon be addressed by new legislation.

The Government's aim is free competition between the 22 insurance companies, until now strait-jacketed by archaic schedules of fixed premiums and options. Total premium intake for the industry in 1988 was TL575bn ($287.5m), in a country with a population of about 55m – perhaps a slightly over-optimistic official projection is that the reforms will propel premium income tenfold in two years.

Public disinterest means that Turkey ranks very low on the international scales of per capita premium expenditure, of around $6-to-$8 per head in 1989. Excluding Greece, the nearest country is Italy, but it has a premium of $344 per head – whereas Switzerland is at the top of the scale, with around $2,500.

Some people put this down to a fatalistic mentality among Turks, inherent in Islam. But others say that, if that were true, insurance would do equally badly in other countries with large Muslim populations. The lack of demand is rather due to poverty of choice – and outmoded premium structures, ill-suited to a population that lacks a broad middle class.

Insurance companies are hindered not by the regulatory environment, but by operating conditions – inflation, coupled with the traditional habits and preferences of companies and people, says Mr Gungor Uras, vice president of the executive board of Aksigorta, insurance subsidiary of the Sabanci Group – "when even the largest companies don't want to insure, how can you expect the ordinary person to do so?" he asks.

Because rates are fixed, insurance companies can compete only in the terms they offer. Although, officially, terms should not be more than six months, in effect, collection can even stretch over 18 months for some smaller and less reputable firms. That means that companies are often only operating on paper cash-flows and profits – not banked premiums. At end 1988, 45 per cent of insurance premiums were overdue.

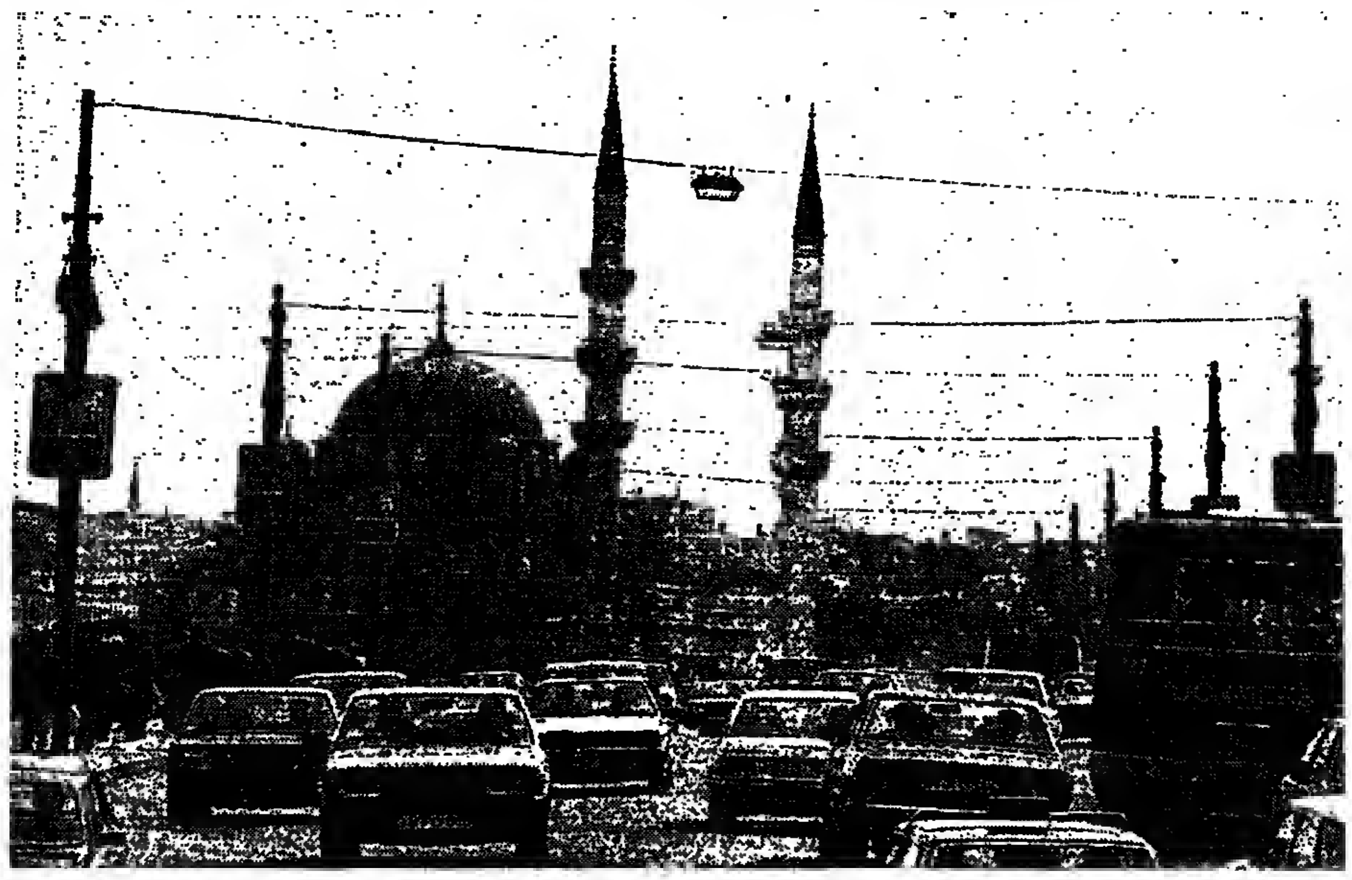
Although technical results for insurance companies are touted by some as highly profitable, the underlying reality, given the difficulties of premium collection, is somewhat less promising once general overheads are deducted, says Mr Uras.

Earnings from life insurance, too, are eroded by the paper work and computer space involved in monthly collections. Taking this into account, life is not profitable – rich people don't need to take out life, and the poor can't afford the premium.

Motor-vehicle cover is the largest millstone around the insurance industry's neck. The sector hamstrings the more profitable operations of others, like fire, life and marine. Only if a company specialises in life can it refuse to offer *kaza* (general accident) cover, which includes motor vehicles – and most agents will not sell broker for a company unless *kaza* is on the menu. For cars, for example, there are two broad categories, with no graduations in between: basic third-party *trafik* cover, and *kasko* fully comprehensive

The cover limits for trafik are out of proportion to the premium. For TL15,000 annually, the payout for death can be up to TL5m per individual, and up to TL15m in all. Similarly, personal injury individually has a ceiling of TL2.5m, a total of TL12.5m. On Turkey's crowded and macho highways, it is estimated that roughly one person dies every hour, often in horrendous crashes.

Cash flows are also undermined by fixed premiums, quickly outstripped by inflation; car repairs, for example, can be far more expensive than the total premium in the case of prestige vehicles like Mercedes; and even the actual worth of a car for old, locally manufactured, models.



Terry Kirk

Vehicles throng the Galata Bridge in Istanbul: car insurance is a loss-making business in Turkey, but law reforms could soon bring changes. Foreign insurance companies already have an eager foot in the door.

But the profits are considerable for other areas. According to one company, for example, it manages a 10 per cent profit on fire, and a 31.5 per cent profit on marine. But kaza returns a loss of around 10 per cent.

The insurance sector could be a strong boost to the capital markets – the Istanbul stock exchange, particularly, lacks a strong institutional anchor. Huge funds, for example, are at the disposal of pension funds, but mainly they invest in government securities or bonds.

"In Europe, insurance companies even invest in banks," says Mr Zekeriya Yildirim, chairman of the new Franco-Turkish joint venture, AGF-Garanti Sigorta. "Here, on the contrary, banks invest in insurance companies."

The Treasury is drawing up an overhaul of the law relating to insurance companies. In pursuit of a more efficient industry through profits competition, the tariff system will be freed. At the same time, third-party compulsory insurance beyond kaza may be introduced as, for example, for factories and products, as it has already been for inter-city bus services.

"We will bring in western-style insurance," says Mr Selcuk Demiralp, general-director of the banking and foreign exchange department of the treasury. For example, motor insurance companies, for the first time, will be able to offer a table of no-claims bonuses.

Foreign investment in the industry is already increasing, with several important joint ventures formed over the past 18 months. One is AGF-Sigorta, which started operations recently. "We're here because we believe we now have the possibility of expanding in an under-developed insurance sector," says its general manager, Mr Yann Dujardin. "We're aiming at 4 to 5 per cent of the market in five years' time."

"It's been excellent," says Mr Don Lyall, deputy managing director of Commercial Union Sigorta, a joint venture between the local Finansbank and the UK's Commercial Union, which will be a year old next month. The joint venture concentrates on corporate insurance. "We would reckon on amortising our investment in about two years' time."

Jim Bodgener

Exchange volumes

□ Continued from Page 7

only 15 are truly public, in that more than 50 per cent of their shares are in public hands.

For some larger companies, the market is too small to meet their capital needs, and they look abroad for funding. Others issue bonds or turn to costly bank-borrowing, often at an effective rate of more than 100 per cent.

But Mr Sensoy believes that many will soon be forced to consider the stock-market. "In the past, corporations could borrow at less than the rate of inflation, but now that the situation has reversed, they cannot afford to borrow, and they will have to go into the equity market. But there is a psychological barrier. They don't want to be accountable. They will have to change their way of thinking, and that will take time." He thinks more companies may open up if owners see they are not losing control by selling a minority of the stock. A new regulation allowing the creation of non-voting stock may also alleviate their worries. Businessmen need to be educated, too, he says: for example, some believe they can only sell their shares at nominal, rather than market, prices; and they need to understand that the stock-market can provide them with liquidity.

Tax incentives (public companies pay only 30 per cent corporation tax) have so far failed to prise shares from private hands. But the Government has one major card it can play. Turkey's huge privatisation programme offers the prospect of releasing shares in many state-owned companies to the public. So far, only 20 per cent of one company – telecom equipment-maker Teletas – has been sold on the stock-market, with another 18 per cent earmarked for sale. Instead, the Government has had to turn to block sales of shares in state companies to private investors, as the stock-market is too small to absorb a large privatisation. The recent growth in the stock-market, though, may enable more sales to the public.

Without an increase in the supply of stock, Mr Sensoy fears an unhealthy growth in share prices. "Rises will be because of supply and demand, not on the value behind these securities. It could soon turn into a gambling casino if demand keeps on increasing and there is no more supply."

Nevertheless, he believes the Istanbul market has great potential. This autumn's upsurge in trading revealed the limitations of the exchange's board-trading system, and the decision has been taken to introduce a computerised system next year. Simply bringing in the capacity to allow stock orders to be processed efficiently is expected to bring a big rise in volume. There are plans, too, to open a second exchange at the Aegean port of Izmir, Turkey's third city.

The Istanbul market has also yet to see market-makers emerge, although one leading broker, Turkinvest, is making a market in five or six of the most heavily traded stocks.

Mr Oktay Sen, of Turkinvest, sees the development of the stock-market as a "mission" for the Turkish economy. He believes Turkey's potential is greater than other emerging markets, because of the size of its population (55m), and because he believes its leading companies will eventually have to go public – although there is no sign yet of this happening. After that, the market would be big enough to attract serious foreign investment.

Mr Sukru Tekbas, head of the Capital Markets Commission, says that, each year, the supervisory body is bringing in something new to develop the market. He points to the recent introduction of a requirement that companies provide audited reports, and a new law now in parliament, covering the description of new issues and bringing non-voting shares.

Tony Hackie

Thomas Goltz describes the currency black market

Brisk business

AS THEY jump and shout and thrust their fingers in the air, the knots of men seem almost threatening to the casual tourist on the fringes of Istanbul's Grand Bazaar.

Some of them are elderly, others are only youths, but most are young adventurers with a taste for big money.

"Cerek, cerek – Makarna, makarna – Tam, tam – Cikolata, cikolata," goes their weird refrain, unintelligible even in Turkish unless one is an initiate.

These are not beggars or touts, but seasoned veterans of Turkey's semi-legal currency black-market, Tahtakale – named after the district of Istanbul in which it is centred.

Although they may look scruffy, hundreds of thousands of dollars pass through their hands every day. One estimate is that they handle a third of Turkey's over-the-counter foreign exchange dealing.

"These are the runners," said Pepsi (Vehbi), a private dealer, whose main interest is in the relatively small flow of tourist dollars and Deutsche Marks. "The big boys keep their heads low in dummy store fronts in the area. Any time you see a gold shop with no gold in the window, that's where the big money is."

Whether private dealer, lowly runner, or boy, the code-words are the same: "cerek," or quarter, refers to the D-Mark; "tam" (full) is the dollar; "kralice" (queen) is sterling; "cikolata" (chocolate) is the Swiss franc; and "makarna" (macaroni) is the Italian lira, which sees a surprising volume of trade.

In stark contrast to the Istanbul Stock Exchange, on the far side of the Golden Horn, with its floor of colour-coded dealers, Tahtakale's brokers still roam the narrow streets around the Kilicilar Kapisi, or Sword Makers' Gate, of the bazaar. The huddles of dealers shift, according to the presence of the police, who break up the trading sessions when they present an obstacle to pedestrian traffic.

"We have to move them on perhaps 50 times a day," said a police officer in the area. "But our concern is because they block the street, and not because of the trade in currencies."

What will happen to Tahtakale in the light of recent moves by the Government to make the lira more freely convertible is debatable? The liberalisation of gold-trading in the spring, by the introduction of a central bank gold-dealing room, has effectively destroyed speculation in the yellow metal. This has driven former dealers to try their luck on futures at the exchange, helping to sustain a first-half bull market in stocks and shares.

The early word is that the currency dealers in the streets of Tahtakale will not only survive, but thrive.

"We work on fractions of percentage points, while the banks work on fixed commissions," said Ilsa, who entered the market a year ago with a trading capital of about DM50,000. "Until there is real full convertibility, we will be in business, and after that – well, we too will move to the exchange."

At least one foreign banker regards Tahtakale as an unhealthy parasite on the economy – made worse by the convertibility moves. "What the Government has done in many respects, is almost to legitimise the black market," he says.

"You come to my counter, I'll charge you a fee. My overheads are much higher. Tahtakale doesn't have to shoulder these. It doesn't pay tax. Why does the Government allow that? What they've permitted to open is a foreign exchange window that's out of control."

FOREIGN INVESTMENT

Encouraging signs

FOREIGN investment has continued to increase despite internal political and economic uncertainty and the hiatus caused by presidential elections.

Based on current trends, actual foreign investment will grow to $550-600m, compared with $406m in 1988, according to Dr Ibrahim Cakir, the ebullient head of the foreign investment department (FID) in the State Planning Organisation.

"So far, my figures show foreign investors are not waiting for political developments," he says: "In the composition of the new cabinet, they can find reassurance that nothing will change to worry them."

The trend will continue upwards next year, based on an expected increase in the volume of applications approved by the FID to $1.2bn in 1989 compared with $925m last year.

External investment to Turkey has been miniscule by world standards, and in comparison with other emergent economies, like Thailand or Singapore. However, the world is over-liquid, and if inflation can be curbed, the early 1990s could see a flood of fresh capital into Turkey, underpinning President Turgut Ozal'e vision of the country as a major trading and industrial power in the twenty-first century.

That would stretch Mr Cakir's grin even further, if such a thing were possible. From a mining engineering background with a doctoral degree in hydro-metallurgy obtained at Birmingham University in the 1970s, and a stint in Libya, he has since 1986 been with the one-stop foreign investment department (FID) established in 1986 in the State Planning Organisation to cut away the red tape that previously surrounded the otherwise liberal law 6224 on foreign investment passed in the 1950s. He was appointed its director in early 1988. As with the FID's former chief, Mr Namik Kemal Kilic, now treasury head, few senior foreign businessmen and investors come away from Turkey without having enjoyed Dr Cakir's banter.

A factor in many of the new investors' decisions has undoubtedly been the fact that Turkey is on the threshold of a Single Europe, whether or not its its application for full EC membership is approved.

However, diplomatic circles in Ankara caution that Turkey's foreign investment prospects may be dimmed by the political changes sweeping through Eastern Europe. If these prove durable, then the flood of investment funds could by-pass Turkey to economies where advanced technology and highly-skilled and motivated workforces already exist.

One hard-osed reason for preferring Turkey is that after several years in high inflation, many Turkish companies are open to infusions of capital – r quite simply, are 'going cheap'. It is plausibly a good time to purchase a stake in a Turkish company which on the one hand has an established market share, yet on the other faces cashflow difficulties that are due to high inflation rather than managerial or product deficiencies.

Many foreign investors see great potential in Turkey's rapidly growing population, with its increasing consumer preference for brand names. Equally important for Turkish partners has been the prospect of transfers of technology, and of management and marketing skills.

By country, of the $595m in approved investment permits this year, the UK led with $219m. Switzerland follows with $129m, then the US with $102m, and Japan with $65m. Although the actual UK inflows over the period amounted to only about $30m, this raised the aggregate foreign investment from the UK by 21 per cent to a total of around $170m.

So far, despite many inward missions, Japanese investors have yet to establish a significant bridgehead in the Turkish market from which to expand, although they are prominent in hi-fi electronic joint ventures. The Japanese figure mainly relates to investment by Bridgestone in tyre-maker Lassa according to an equity and investment deal reached with the plant's holding company, the Sabanci Group, last year. which Bridgestone Corporation bought 36 per cent of Lassa and also announced plans to invest $170m to the company.

It might seem that the Japanese profile will be mnch larger once a deal is concluded with a consortium led by state-owned Electric Power Development Company (EPDC) to construct a $960m thermal power station at Aliaga near Izmir on the "build-operate-transfer" (BOT) model. However, Japanese officials privately admit that the considerable Japanese credits towards the cost are a way of recycling Japan's trade surplus as pledged in 1987.

Nevertheless, BOT equity inflows will be substantial this year if contracts are finally concluded for the Aliaga plant and for the $430m first stage of the Ankara metro with a Canadian led-group.

The existing joint venture car manufacturers in Turkey are highly sensitive to the Japanese threat. One executive even went so far recently as to warn that Japanese investment in the auto industry might prove a stumbling block for Turkey's full EC membership application.

Talks have proceeded intermittently between Japan's Toyota and the Sabanci group about joint car production in Turkey, but the joint venture negotiations were receotly delayed again by downward revisions of duties on imported cars.

However, interest has picked up recently from European manufacturers, according to Dr Cakir. The US's General Motors started construction in the summer of a complex to produce automotive spares and upholstery, and also to assemble around 10,000 Vectra cars a year from October 1990.

The Vectra is currently produced by Opel in West Germany. Also studying the Turkish market in tandem are Peugeot and Citroen, perhaps for a plant manufacturing both makes of car. Volkswagen has also looked at Turkey, says Dr Cakir.

He says the pattern emerging from all these investments is one of re-export and integration with other group manufacturing plants in Europe by companies eager to take advantage of Turkey's low labour costs. The tendency is towards bulk components production. The aim is no longer one of maximising local content, but rather of achieving a comfortable degree of integration, which also boosts exports.

However, he challenges fears expressed by others that Turkey will be relegated through this process as a second rate partner, its technology always one step behind: "In order to have a hi-tech car, you have to have hi-tech components," he says brightly: "Companies have to produce high quality and competitive components in Turkey to send back to assembly plants in Europe, if the overall product is to meet European standards."

Jim Bodgener

Ibrahim Cakir, director, foreign investment department of the State Planning Organisation: selling Turkey to th world.

INDUSTRY

New moves to boost efficiency

TURKISH INDUSTRY is smarting badly from a series of stinging measures in the second half of the year aimed at prodding efficiency and competitiveness to levels compatible with the European Community.

"We're facing low demand, high interest rates, and high inflation," says Ms Guler Sabanci, general manager of tyre cordmaker Kordsa. "People who can shift production and sales to exports are able to survive better, but there is a limit to how much you can export." Interest rates are high, but companies probably suffer more from hikes in labour and fuel costs, she adds.

On the other hand, exporters too have been hit by withdrawal of export tax rebate incentives, and the slowdown in the lira's depreciation underpinned by a convertibility package introduced in August. A series of sweeping tariff-reductions in late summer and early autumn aroused howls of protest from industry lobbies, which claimed the cuts had caught out manufacturers struggling with slack demand and high operating costs.

Taking remaining levies like development fund charges into consideration, raw materials are taxed up to 10 per cent, intermediate goods between 10-30 per cent, and most finished goods still are protected by upwards of 50 per cent.

The tariff rednctions and convertibility package were fine in principle, but badly timed, according to Professor Erdogan Alkin, a senior adviser to the big bnsiness lobby, the Turkish Businessmen's and Industrialists' Association (TUSIAD) and head of the economics department in Istanbul University: "I strongly believe you cannot defend protectionism, but you have to plan properly, and make industry ready for competition," says Ms Sabanci. "They have done it upside down, and made industry suffer."

Turkey is increasingly attractive to manufacturers of electronic goods and components, seeking access both to a growing domestic market and exports to neighbouring countries. In general, industry is not pessimistic, but would like to see policies promoting investment and production - there is a general lack of confidence, say analysts.

However, these complaints are probably accounted for by the dominance in business lobbies of large groups originally founded on import-substitution, particularly those heavily exposed in sectors like cars and white goods. Other manufacturers, often smaller intermediate manufacturers, have welcomed the measures, seeing no threat in them.

Officials say the manufacturers even of white goods and cars have little cause for complaint. For too long they have pegged their prices unrealistically a little below imported goods, and the lack of competition has had a deleterious effect on quality and production efficiency.

If Turkey is ever to join the EC, cutting import duties and promoting competition will be a fundamental step towards integration, as provided for in Turkey's 1963 association agreement, add the officials.

Moreover, state economic enterprises, which account for the ontput of most domestic raw materials, now have little or no protection: "After that, why should we protect the private sector?" asks Mr Yalcini Burcak, depnty treasury and foreign trade undersecretary.

The car industry can survive at the present level of protection of around 35 per cent, but not any lower, says Nejat Emirli, general secretary of the Automotive Industry Association. It has been helped by a surge in demand in the autumn prompted by middle class bureancrats and businessman seeking a better investment return than falling bank deposit interest rates.

Some small consolation for industry has been accompanying anti-dumping legislation aimed particularly at East European and Far Eastern suppliers, according to officials. Hungary, Taiwan and China appear to be prime culprits.

Industry is also up in arms against draft tax legislation which would withdraw the interest relief previously allowable against corporation tax on working capital borrowing, thongh that on investment credit remains. Many Turkish companies, after more than eight years of high inflation, are extensively leveraged, which if the amendment became law, would mean disastrous erosion of their capital bases. And high borrowing costs are set to continue into 1990 - there is a break-even limit for banks as to how far interest rates can fall below the rate of inflation, despite the pressure of over-liquidity.

The problem of high interest rates strikes a company once in operations, not during the investment period, says Ms Sabanci. It is then that the cost of rolling over credit to buy in raw materials and semi-finished products increases on short-term working capital. The Finance & Customs Minister Ekrem Pakdemirli backed down in late October by pledging a review of the new legislation.

Jim Bodgener

PRIVATISATION

A critical phase

IF YOU want to see a striking example of privatisation in action in Turkey, duck down a *precipitous side-street off Istanbul's* bustling Cumhuriyet Caddesi, turn left into an unremarkable looking building and take the snail-paced lift up to the offices of Usas.

There you will find, amid the heavy wooden panelling and portraits of Ataturk favoured by the old regime, Mr Tom Hertel and his team from SAS Service Partner, the Scandinavian airline's big catering subsidiary, getting to grips with their task of running what was until this antumn Turkey'e state-owned airline and airport caterer.

With his slick English – and Turkish – version videotapes on SAS corporate strategy and his breezy Danish informality, Mr Hertel could hardly strike a greater contrast with the traditional dour bureaucracy of Turkey's huge state industrial sector. His plans to re-vamp, re-train, expand and generally transform Usas are only just beginning, but just the change *in ambience gives an immediate* feel of what the Government wants to achieve through its ambitious privatisatioo programme. Was tbat really a spring in the step of the fellow who brought in the obligatory Turkish coffee?

In fact, the privatisation effort, a central plank of the liberal economic policies of Mr Turgut Ozal since he became Prime Minister in 1983, may be entering its most critical phase.

Out of the 40 State Economic Enterprises, which together account for more than half of Turkey's productive capacity, shares in only a small number of companies have been privatised so far, most of them small in size. The three most significant were the public flotation on the still-nascent Istanbul stock exchange of 22 per cent of Teletas, a telecommunications company, the sale of a 70 per cent stake in Usas to SAS for $14.5m and the disposal of *five local cement factories to* SCF of France.

The last deal was the biggest so far, SCF paying $105m for virtually the entire equity of the cement companies, with undertakings to invest a furtber $70m in them and sell back a 40 per cent share through a public offer within five years. However, the SCF deal pointed up some of the obstacles facing the Government as it moves on to tackle the more significant and mucb bigger state companies.

Because of the risks involved in big offerings on the recently active, but shallow, local stock exchange, the Government decided initially to dispose of the cement companies in one chunk to SCF. Despite the condition attached to float off 40 per cent later, the arrangement drew sharp political opposition

Continued on page 10

DEFENCE INDUSTRY

Ambitious $10bn plan

THE TURKISH Government will next month make up its mind on a large chunk of its ambitious $10bn scheme to develop its own defence industry – a scheme that promises to put the country into the second division of the world arms industry.

Given that its defence industry at present consists of a state munitions organisation, a company making military radios, and the production of F-16 fighters, the scheme represents a giant leap forward.

The programme, drawn up by the Defence Industry Development Administration (Dida), includes production in Turkey of armoured combat vehicles, modern wireless systems, electronic systems for the F-16s, multiple-launch rocket systems, air defence missiles, mobile radar, light transport aircraft, helicopters, fire control systems for anti-aircraft guns, training aircraft and mine hunters.

Yet, four years after its launch, Dida has so far got only one project – for armoured combat vehicles – to the stage where contracts have been signed.

Nevertheless, there is confidence that the programme can succeed, with all 11 projects in production by 1992, and have important spin-offs for development of the Turkish economy.

Each project involves setting up a joint venture between an American or European defence company and a Turkish company, either an existing one or a newly-formed company.

In addition to saving the cost of importing defence equipment, the scheme includes important offset deals, promises the transfer of valuable technical and managerial skills to Turkey, and offers the prospect of developing new export markets.

The Dida project originated in the need for Turkey's 500,000-strong army, the second largest in Nato, to modernise its equipment to bring it into line with its alliance partners. Until recently, it relied on handouts of old US or German equipment, or bought supplies from abroad helped by US aid or credits.

In 1983, came a forerunner of the Dida programme with the formation of a joint venture to make F-16 fighters in Turkey between General Dynamics and Tusas Aerospace Industries. These are now being produced at a new plant near Ankara.

Dida itself was formed in 1985. It is financed by tax revenues of $600m a year placed in a special fund, the Defence Industry Support Fund, which is separate from the main government budget and protected from any cutbacks.

In 10 years, the fund should reach $11bn – enough to pay for the planned programme, though Dida can also draw on the main defence budget or take up soft credits when available. At first, it was difficult to convince foreign companies that Turkey was no longer interested in purchasing equipment. It wanted joint ventures, technology transfer and offset deals, says Mr Vahit Erdem, Dida's president.

Guard of Honour at the Dolmabache Palace, Istanbul

"I think this message is now understood, but still we have problems," he says. Mostly they [foreign companies] are looking short term, and we are thinking long term." He believes the first foreign companies to set up in Turkey will be strongly placed to win subsequent contracts, especially in the important electronics field.

The programme has prompted fierce competition among foreign defence companies, with the traditional links between the Turkish army and US and West German manufacturers being challenged by other European producers. At stake is a share in meeting Turkey's large defence need and access to cheap manufacturing labour.

Those that succeed are not only offering the most modern equipment demanded by the Turkish military, but also satisfying the civilians at Dida who are looking at financial and commercial considerations, too.

Mr Erdem sees Dida having considerable impact on Turkish development, helping to develop high-tech industry with civil as well as military applications, and bringing in higher standards of engineering, management, quality control and industrial security. He rejects the criticism that the projects are taking a long time to negotiate.

"To us, it seems fast, not slow," he says. "Dida is new."

Dida's first project, for armoured vehicles, was held up by difficulties over financing. Even now, the subcontracts for the guns remain unsettled while Dida evaluates proposals from four foreign companies.

Mr Sinasi Buyukln, of Turkish construction company Nurol, which has partnered FMC of the US in the project, says: "As soon as this is settled, the programme can ahead. But we expect similar issues to arise because the government has the right to change the specification. But those are not insurmountable problems."

As the first in the field, and with little experience in the defence industry, the project has been a difficult one for Nurol. But Mr Buyukln believes the Dida concept is successful, providing greater continuity and commercial input than the previous defence procurement methods controlled by the military.

One existing defence contractor that stands to benefit considerably from the Dida programme is Aselsan, an electronics company owned by the Turkish Army Foundation (a trust fund set up by public subscription in the wake of the Cyprus invasion). It makes radios and other military equipment, is a sub-contractor to Dornier, in Nato's Stinger missile project, and also produces civil electronic products.

Aselsan has an involvement, either as a potential partner or potential sub-contractor, in no fewer than six of the Dida projects. It has links with many foreign companies, and has found itself simultaneously co-operating and competing with the same foreign company in different Dida projects.

For Aselsan vice president, Mr Ayhan Gerceker, it is important that there is a real transfer of technology, rather than the Turkish partner merely operating as an assembly plant.

"We have the basic investment and people who have experience of the basic technology," he says, "but, for design and testing, we need help from experienced people."

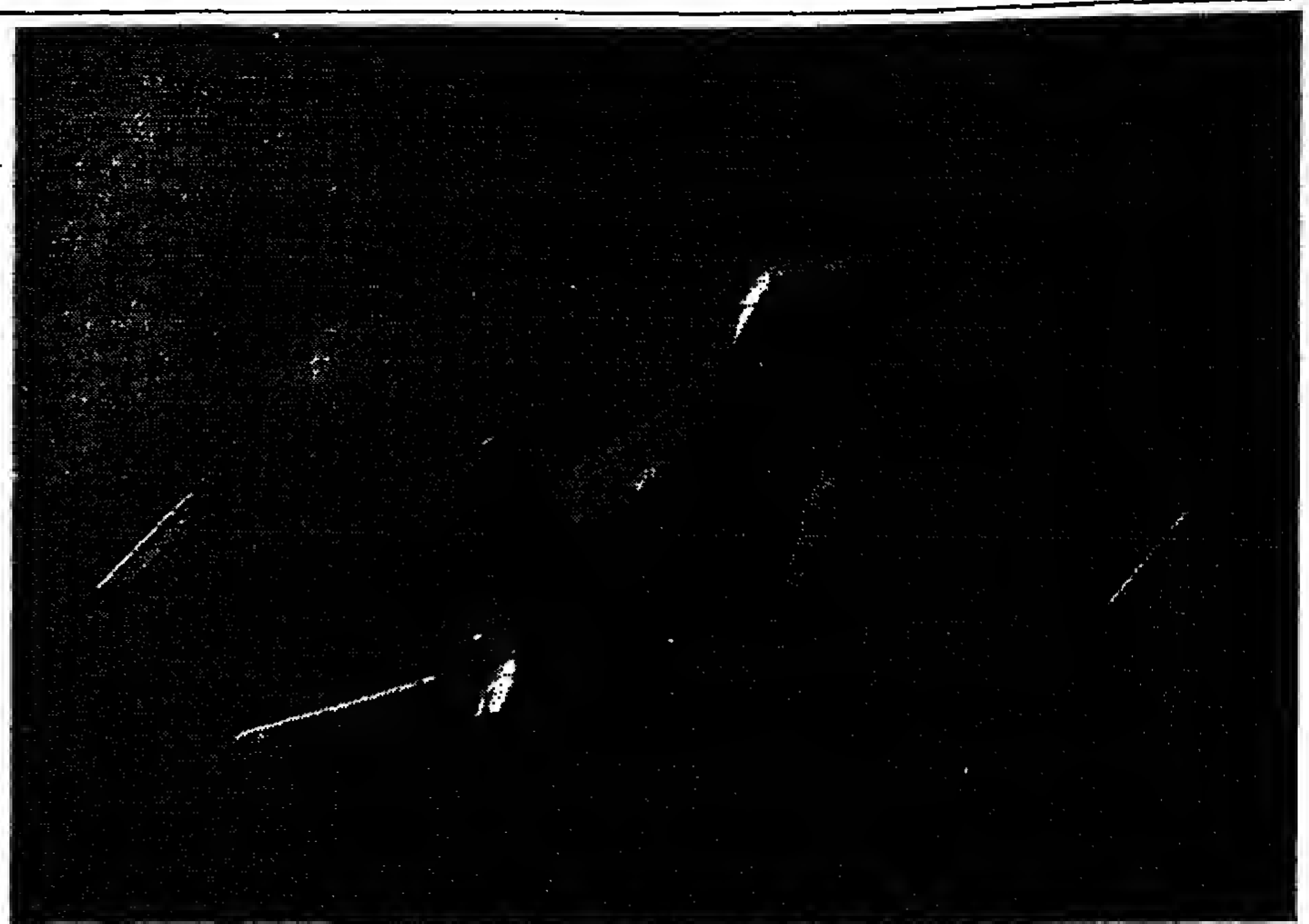
British companies have had mixed success in winning Dida contracts. Marconi has secured the $160m contract for wireless systems, but has yet to find a local partner. But it failed to make the short-list to supply a mobile radar system.

British Aerospace, despite supplying large quantities of its Rapier missile to Turkey, failed to make the short-list for a low-level air defence system, although it may still be in with a chance, as Dida is unhappy with the commercial side of the proposals made to it by the three short-listed companies, Oerlikon, Euromissile and Thomson-CSF. Others in the running to win Dida contracts include Westland, Racal, and Vosper Thorneycroft.

Without doubt, the Dida programme will enable Turkey to break out of its dependence on western arms imports. And there seems little doubt that the programme will succeed, given that Turkey is a country where military influence in politics is strong.

The question remains, though, in a world where the Iron Curtain is collapsing before our eyes: is defence the best industry in which to invest?

Tony Huckle



Aircraft production is in full flow near Ankara under licence from General Dynamics of the US of the F-16 fighter – *fast becoming a symbol of technological prowess throughout Turkey*

Munitions group may move into missile production

Radical change of course

MKEK, Turkey's *state-owned* munitions and small arms enterprise, is waiting to be propositioned.

After more than a century and half of being little more than a branch of the Turkish army, the company is envisaging a radical change of course. Not only is it in line for eventual privatisation, but it wants to extend its activities into missile production and, in the process, team up with a foreign *partner* – "*we are opening our gates to any potential foreign collaboration*," says Mr Adnan Ignebekçili, chairman of the Ankara-based enterprise. "We are looking for partners. It could be anything from technical collaboration right up to a joint venture.

"We have asked foreign companies to come here and generate ideas."

This is change indeed for Turkey's biggest and oldest *defence company. Founded* in 1827 as a military factory for the Ottoman army, it was run directly by the army until 1950 when it passed to civilian management. Even today, though, army officers check and test products at its plants.

About half the company's $350m turnover is composed of civil products, mostly machinery and machine tools. But the close links with the army have meant the enterprise has not always been able to function on commercial lines. It has been obliged to meet the needs of the Turkish army as a priority over export sales (which comprise 10 per cent of turnover) and its profit levels have been set by the government.

Now it has plans for restructuring on a much more commercial footing. The civil and military divisions are to be separated and reorganised with a holding company and subsidiaries. *In the short term a five-*year modernisation programme for the small arms and ammunition works has been prepared.

In the long-term, MKEK wants to expand vastly its involvement with missile production. It already has a stake in Rocketsan, which makes rocket fuel and parts for *Stinger* and *other missiles*.

But for the future it needs a partner. Mr Ignebekçili believes the company needs to prepare for the growing common defence market in Europe where small companies cannot carry the burden of technical innovation. "We cannot close our eyes to what is happening. *It would be the biggest mistake* we could make. So we are opening our gates for partnership and look forward to participating in Europe."

Mr Ignebekçili believes the combination of MKEK's low labour costs and production experience with technical know-how from a partner offers a big potential, with the prospect of sales to both Nato countries and Islamic nations.

It already has links with a number of foreign companies through involvement in the Turkish government's drive to expand Turkey's defence industry through joint ventures with foreign defence companies.

It is working with LTV Aerospace of the US in a £1bn project to produce multi-launch rocket systems. It also produces Oerlikon guns under licence from the Swiss company.

It is possible that a foreign link-up will be the key to privatisation. While the enterprise is on the government's long list of privatisation candidates, and the management is keen to go private, quite how and when is very much up in the air.

A foreign partnership could include taking an equity stake, *or a local partner might buy* a stake. But the time scale for privatisation is seen as five to ten years away. And by that time Istanbul's tiny stock exchange may have grown enough to see a public flotation.

Tony Huckle

Privatisation

☐ Continued from page 9:

that privatisation was, in reality, "foreignisation" – a knock-down sale of prized national assets.

Although the main opposition parties to Mr Ozal's Motherland Party – the Social Democrats and the conservative True Path Party – are not in principle against privatisation, they have become stridently opposed to the way the ruling party is going about it, backed by the belief that public opinion is on their side. In a period of flux, with the Government changes precipitated by Mr *Ozal's new elevation to the* Presidency and the Motherland Party's ratings in the polls at a dismal level, even officials involved in the programme acknowledge that progress is likely to be slowed.

The cry of foreignisation is a hard one for the Government to combat because foreign investors so often appear as the only realistic customers. "Capital has no nationality," counters a senior official, trying to keep the privatisation momentum going. "And that's what we lack. Capital is the *most important factor* missing in Turkey. If we believe in integrating with the EC – which everyone does – we've got to do it (attract foreign buyers)."

Press reports say that the block sales to foreigners may bediscontinued because of the controversy surrounding the sale of productive state assets *to foreign interests*. Instead, according to these reports, the MHPPA has mooted a scheme whereby only Turkish companies or groups of companies as leaders, perhaps with foreign *minority partners*, can purchase such chunks of equity.

As disposable capital is scarce in Turkish industry, instead the Turkish purchasers could swap equity in their companies instead, which afterwards would be sold off by the MHPPA, thus broadening the public ownership of industry as always desired by the government.

Foreigners will certainly be central to the successful disposal of the four enterprises which now sit at the top of the Government's privatisation list. Probably the first to go will be Turban, operator of 16 hotels/holiday resorts, four choice marinas and some other facilities. Turkey's recent tourism boom should make Turban an attractive proposition, especially as it occupies the less populated 3-4 star range of accommodation, although there may be complications over the ownership of many of its sites.

The highly diverse Sumerbank group, spanning banking, retailing, textiles, leather goods and many other sectors, is also considered a good privatisation candidate. It is almost certain to be split up and local investors should get their bite at the cherry. A potential political hitch, though, lies in its traditional social role as a provider of local jobs and services around the country.

Probably more of a challenge are two big industrial companies, Petkim, the monopoly petrochemicals enterprise, and Eregli Iron and Steel. Both make money at the moment but require heavy investment programmes. The nature of their businesses inevitably points to the need for international partners – which privatisation opponents would attack as foreignisation.

The strategic element of Petkim means that there is especial sensitivity over what *proportion of the state's 100 per* cent shareholding is sold. Nor is it feasible simply to remove its monopoly rights, as was done in the case of Usas. A regulatory framework will be needed, something not done before in Turkey.

Hugh Carnegy

Profile: Şişe-Cam

Export success for glass producer

NO ONE has heard of Şişe-Cam. Even in the glass industry the company is known by its old name Paşabahçe. Yet this is Europe's fourth largest glass producer, ninth in the western world, and one of the few Turkish companies to have a significant ranking in global terms.

Mr Mehmet Kara, group finance manager of Şişe-Cam (Turkish Glassworks), attributes this success to the company taking a fundamentally different approach in the 1960s. While other Turkish companies were sheltering inefficiently behind tariff barriers, Şişe-Cam (pronounced Shees-hay-Jam) decided on a more dynamic course.

"In 1960, Turkey was not exporting any industrial products. We did then what Ozal has been trying to make other companies do in the 1980s," he says. Şişe-Cam then invested for the long-term, bought the best technology, adopted modern management methods, spent heavily on research and development, and went all out for exports (having already sewn up the Turkish market). "To compete with foreign companies we have to do things like they do," says Mr Kara.

This approach continues. Şişe-Cam is in the middle of a huge $450m investment programme, doubling its float glass capacity to 400,000 tonnes a year and substantially increasing output of tableware. By 1991, total glassmaking capacity will have risen by a third to more than 1m tonnes.

The float glass expansion is being carried out with the help of UK glass producer Pilkington, which has supplied equipment and expertise. Şişe-Cam has been licensed for more than a decade to produce glass by Pilkington's float method. Finance for the expansion is being provided by the International Finance Corporation, the hard loan arm of the World Bank, and from internally generated funds.

Almost all the new capacity will be devoted to exports. The company exports to 65 countries, mostly in Europe, although it regards the Middle East and North Africa as its "own backyard" where there is no rival producer of comparable quality.

Despite the prospect of a period of slower growth in the European market for flat glass, and competition from other new plants coming on stream, Mr Kara is confident Şişe-Cam will be able to sell its extra output. Present capacity is unable to meet demand, he says, and he points to the Turkish company's advantages of low labour costs and integrated production. Unlike most other glass companies, Şişe-Cam is both vertically and horizontally integrated, making virtually every kind of glass as well as producing all its inputs such as soda ash and other chemicals. This enables the company to control input costs.

In tableware products, Şişe-Cam believes it has a big opportunity. Here labour costs are a significant part of total costs and, with its sizeable home market, Şişe-Cam can achieve economies of scale.

He believes, too, there will be a recovery of demand in Europe for glass containers as environmental concerns weigh against the plastic bottles and packaging which have captured part of the containers market in recent years.

The company has a virtual monopoly in Turkey. It was founded by the big banking group, Turkiye Is Bankasi, in 1935 on the orders of Kemal Ataturk, the father of modern Turkey, in his drive to create a westernised, industrial country. Production of flat glass began in 1961.

Despite the reduction in import tariffs from around 100 per cent 10 years ago to 5-10 per cent today, the company has no fears of losing its dominant position in Turkey. So far no major foreign glass producers have tried to take on Şişe-Cam on its home ground. But cheap imports from the Eastern bloc, especially Romania, have irked the Turkish company – "the prices they charge are impossible," says Mr Kara. And even though the Romanian quality is poor and their products have yet to capture much of the market, he says Şişe-Cam may consider laying a complaint under Turkey's recently introduced anti-dumping legislation.

Tony Huckle

Cotton prices have soared, says David Barchard

Turning point for textiles

The textiles sector, for long the motor behind Turkey's export drive, now faces the problem of rising costs and increasingly outdated production plant

Terry Kirk

THE TEXTILES industry has been Turkey's star performer in international markets for over a decade. In the last three years alone, Turkey's annual earnings from textile exports have surged from $1.85bn to $3.2bn. Turkey is well entrenched as the main outside supplier of textile products to the European Community and Turkish exporters have made steady inroads into markets further afield, such as the US and Canada.

This year, however, could be a turning point. For most of the 1980s, Turkey's textile exporters have been the beneficiaries of a combination of policies designed to stimulate foreign trade. Though subsidies to exporters (important in the first half of the decade) have been almost entirely phased out, the main prop driving exporters – steady devaluation of the Turkish Lira – remained in place from January 1980 until last May.

Since then, the TL has been marking time against international currencies or even appreciating them. Turkish cotton prices, on the other hand, have soared to 30 per cent above world levels. As a result, Turkish textile companies, long-used to selling only to foreign markets, are starting to fatten up their domestic order books.

"We are now planning to sell about 30 per cent of our production to the domestic market," says Mr Halil Bezmen, chief executive of Mensucat Santral, an Istanbul-based producer of interlinings and sheets. "We knew this [the change of policy] was coming, and started to set a strong domestic network in place two years ago. By the end of this year, we will have a domestic sales force of 150."

Mensucat Santral's investment programme has altered, too. Instead of heavy annual investment in textiles, Mr Bezmen is diversifying. Earlier this autumn he bought a 40 per cent stake each in two offshoots of the Is Bankasi group, Rabak, an electrolytic copper piping producer, and Koruma Tarim Ilaclari, an agricultural pharmaceuticals company. Mensucat Santral is going to inject new management into these companies, while, perhaps, partially taking its eye off the ball as far as its traditional activities are concerned.

This reflects Mr Bezmen's view that he is no longer in a growth market. "I think these policies have come to stay for some time," he says. "The textile sector is stagnating. It isn't tragic for the moment, but we will certainly feel the effects after two or three years."

Down near the Golden Horn, in the offices of Orta Anadolu Mensucat, another leading Turkish exporter, Mr Mehmet Ali Babaoğlu, agrees. "Our costs have already gone up by nearly 60 per cent this year, while our foreign exchange earnings are marking time. The price increase has to come out of our own pockets."

This gloomy observation is in contrast to Orta Anadolu Mensucat's remarkable turnaround this decade. Nine years ago the company's plant at Kayseri in Central Anatolia produced woven cotton fabrics for the Turkish village market. Mr Babaoğlu, a manager at Gaziolğlu-Karamanci, an Istanbul trading group, spotted its potential and persuaded his employers to buy the plant and back an injection of $55m in fresh capital.

Werner, the Brussels-based textile consultancy group, was brought into advise on strategy. Orta Anadolu switched production to denim for the jeans industry, targeted six main customer opportunities in Western Europe; struck an alliance with a German group which acted as its introducer in new markets, helping guarantee quality.

By 1986, Orta Anadolu was back in the black and last year it made what are said to have been handsome (though undisclosed) profits. Mr Babaoğlu is not very optimistic about the future, however, appearing to think that economic policy in Turkey is now basically responding to internal political priorities. He warns that things are likely to get worse.

Investment needs

"To be able to keep up in international textile markets, you have to make huge investments. There is a constant need to invest more than our competitors in the developed countries. Now the profits are no longer there and once the profits are not there, the investment is not there," he says.

"For a few years you will not see any real decline in Turkish textile exports, but gradually the equipment in Turkish plant will become outdated and cease to be competitive. The cost of production here is already higher than it is in Italy," says Mr Babaoğlu.

To understand the bleak tone of textile industry leaders like Mr Bezmen and Mr Babaoğlu, it is necessary to remember that state-of-the-art enterprises like theirs are by no means typical of the Turkish textile sector as a whole. Much of the industry still consists of inefficient small-scale companies directed towards the local market. Even among those companies which tried to modernise their production in the 1970s and 1980s, there are a good number which are badly managed and find it difficult to stay in the black.

However, at Söktaş in south-western Turkey, Mr Muharrem Kayhan, the managing director is less pessimistic. He says: "We will not allow short-term currency concerns to divert us from our main goals. In this day and age, domestic and foreign markets, especially in our sector, are basically one big whole. The Turkish private sector has by now achieved a level of dynamism which enables it to adapt to changing conditions."

Sötaş expects to earn about $23m in exports of cotton yarn and cloth this year. At the other end of the market, however, the garment sector has been hard hit by changes. Turkey, with its low labour costs and proximity to Western Europe, has obvious potential to become a major international supplier of ready-wear. Inflation is, however, pushing up labour costs fastest in this part of the textiles industry.

However, interest by foreign investors in the Turkish textiles sector is growing. Last year Dolfuss-Mieg Compagnie (DMC) of France took a 50 per cent stake, for a price believed to be around $30m, in Bozkurt, the textiles arm of Koç, one of Turkey's two main industrial conglomerates.

The Profilo industrial group

Battling hard with inflation

LIKE MANY Turkish companies, Profilo, an industrial group producing household appliances, electronic goods and building materials, is finding that living with 70 per cent a year inflation is tough.

For Profilo, this has meant rising costs, stagnant sales, falling profits and financing problems. Four years ago, sales stood at $510m and profits at $31m. Today, sales have hardly risen at $520m, but profits are down to $22m.

"Inflation is our biggest problem," says Mr Jak Kamhi, Profilo's president and the creator of one of Turkey's biggest industrial holding companies. "We have a lot of losses, because of inflation and the devaluation of the lira. It is not so easy, but we are defending ourselves."

His Istanbul-based empire of 26 companies, with a workforce of 8,000, makes half of Turkey's refrigerators, a third of its washing machines and a fifth of its cookers. In electronics, the company's products range from televisions and video recorders to cash registers and calculators, made under licence from companies like Sony and Olivetti. Profilo aims at vertical integration, producing many of the materials for its products, such as copper wire and thermostats.

But, with price rises eroding the purchasing power of consumers, sales have suffered. Nor is it easy to provide credit to consumers to boost sales. In Turkey, there are no consumer finance houses, and only manufacturers provide credit. But, with bank loans costing 100 per cent a year, Profilo is hard pressed to meet its own capital needs. And while inflation is wearing down the value of its working capital, rising input costs mean more is needed.

One answer has been to resort to rights issues among its 1,000 or so private shareholders. (A majority of the shares are held by Mr Kamhi's family.) But the company still has to pay through the nose for bank finance, or to service corporate bonds.

Profilo is reacting to these pressures by tightening financial controls, through rationalisation, and by seeking an injection of capital from foreign partners. Earlier this year, AEG of West Germany, one of a number of the big-name western companies which have licensing agreements with Profilo, paid $30m for a 20 per cent stake in the company's home appliances division, with an option to increase its holding.

Negotiations are also in train with Thomson for a $20m injection from the French electronics company, and a deal is expected to be concluded before the end of the year.

If Mr Kamhi has any regrets at ceding part of his company to foreign control, he shows no sign of it. His son, Cefhi, works in the business. But Mr Kamhi says: "A company cannot stay under the control of one family. The takeover will be by whoever can take it over."

An ardent supporter of Turkey's application to join the European Community, he sees the future of his business in Europe. "We are making these joint ventures with big multinationals in Europe in order to share with them the opportunities for tomorrow and to get into foreign markets," he says.

Profilo needs the technology that AEG and Thomson can provide, and in return can offer labour costs that are one-eighth of those of western Europe.

Like many Turkish businessmen, Mr Kamhi is anxious that the EC commit itself to a date for Turkey's accession to the Community.

Profilo has come a long way since the early 1950s, when, as a young man, Jak Kamhi decided he could manufacture steel roof profiles in Turkey rather than import them. Over the years, he has had to contend with shortages of foreign currency, labour problems, and liberalisation of imports. Import duties have been further reduced in recent months, bringing protests from industrialists struggling with high interest rates and slack demand.

Yet Mr Kamhi insists that Profilo can compete with importers, as it does with Turkish rivals. But he fears that reducing the levels of protection may discourage foreign investment.

Tony Huckle

DOING BUSINESS IN TURKEY

Helpful hints for visitors

DOING BUSINESS in Turkey is little different from doing business in any western capital. There are a few tips, however, that are useful to follow:

■ Never expect your Turkish counterpart to get straight down to business. He will question you about your health, family and how you are enjoying your stay.

■ Don't be upset if your conversation is periodically interrupted by phone calls that your Turkish partner will receive; this is accepted behaviour.

■ Avoid addressing him in pidgin English. Nothing is more irritating for Turkey's mostly Western-educated class.

■ If he invites you to his home for dinner, take your hostess an odd number of flowers (a peculiar but strictly observed custom) or, better still, take a few boxes of Earl Grey tea, for which the Turkish élite has developed a taste.

Communications

Istanbul and Ankara both offer nearly all the standard communication services available in Western capitals. Facsimiles, direct dialling and telex machines are at hand in all the five-star and nearly most four-star hotels.

Airports

Ankara, Istanbul and Izmiral have international class airports, although Istanbul's Ataturk airport is the most widely serviced. An increasing number of international airlines have, however, started up direct flights to Ankara. These include British Airways and Lufthansa. You may take the Turkish airlines (THY) shuttle bus from both airports into the centre of town for less than £2.

International travel

Turkey has a very well-connected road network. One can go practically anywhere by bus at a nominal price. Varan and Ulusoy bus companies, which both have non-smoking sections, are highly recommended. THY has almost hourly shuttles between Ankara and Istanbul (a 40-minute flight). And now that Scandinavian Airlines' SAS service partner has taken over catering for THY, overall service has visibly improved. A slightly more exotic and cheaper option is the overnight train, which departs from Istanbul's Haydarpasa station at 22.00 hrs every night and arrives in Ankara 10 hours later (and vice versa).

Taxis

All taxis should be metred – avoid those that are not. Fares, which are regularly adjusted to inflation, are still cheap by Western standards. The 20-kilometre drive between Istanbul airport and the city centre, for instance, costs around TL20,000 (£4.00). Hiring a car may prove to be more economical, however, if you need to drive around a lot. Europcar, Budget and Avis all have local subsidiaries. Traffic in Istanbul is congested at the best of times. Avoid crossing the Bosphorous bridge during rush hour – you may spend over an hour contemplating the beauty of the Bosphorous amid the clamour of wildly honking taxi-drivers. Traffic is calmer in Ankara.

Traffic in Istanbul is congested at the best of times, says AMBERIN ZAMAN

Hotels

The Istanbul Hilton, with its breathtaking view of the Bosphorous and good business services (including a large conference centre), still remains your best choice. The Sheraton comes in a close second and the Pullman Group's Etap Marmara, conveniently located in Taksim Square, offers good service. For those who wish to combine business with a little pleasure, the Ramada, within walking distance of the Blue Mosque and covered bazaar, is ideal. A wide range of more moderately priced hotels, such as the Riva and the Dilson, can be found just off Taksim square. If you need to stay on the Asian side, the Suadiye, facing the Prince's islands, is a safe bet.

Ankara has come a long way in terms of accommodation. The Hilton, which opened its doors last year, is a natural choice, though the soon-to-be-completed Sheraton will be offering healthy competition. The only other five-star hotel is the Buyuk Ankara. The Pullman group's Etap Altinel has equally good service. A less costly but respectable alternative is the Best Hotel on Ataturk Boulevard, conveniently located close to government offices.

Restaurants

Istanbul boasts a wide variety of cuisines. For an authentic kebab go to Hasir in Yesilkoy. If your taste is more continental, go to Ziya in Tesvikiye. For a business lunch the in-place is Borsa ("stock market"), the current favourite of Istanbul yuppies. Palet, in the village of Tarabya on the Bosphorous, not only serves splendid fish but has an equally splendid view.

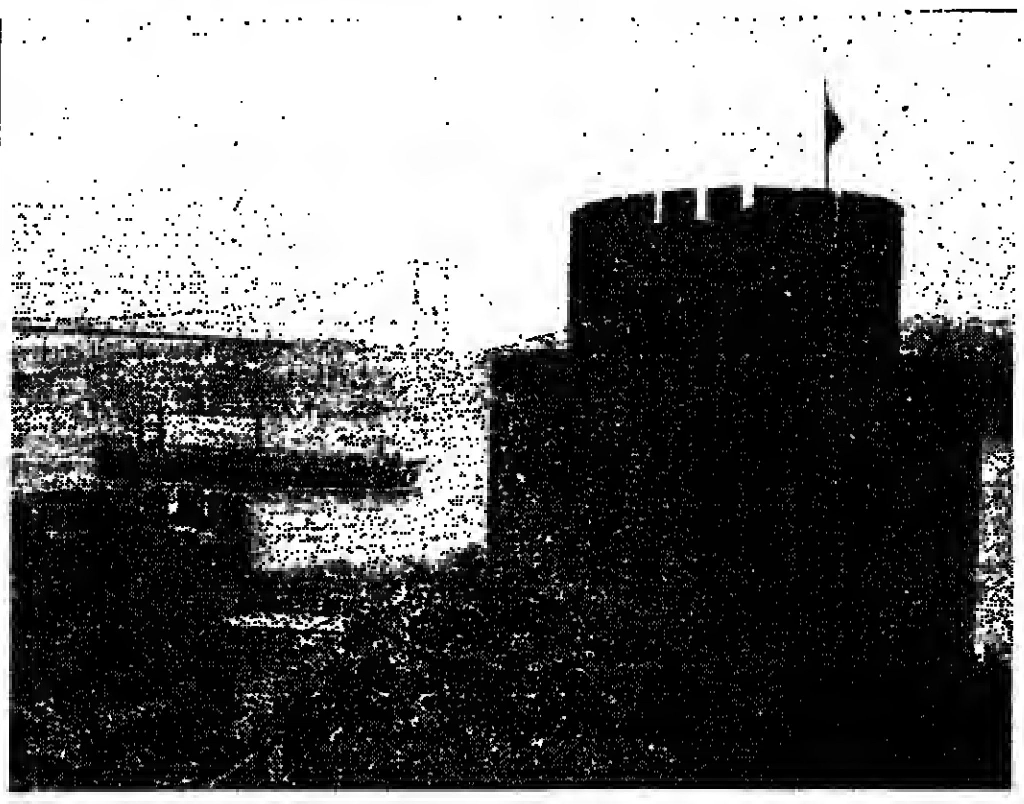
Ankara has its fair share of good restaurants, of which Washington in Sakarya is ideal for business lunches. Excellent continental food is served by Pineapple, owned and managed by a former employee of the original Love Boat. Madame Ulker at Ulker's in Cankaya will personally serve you the best home cooking in town.

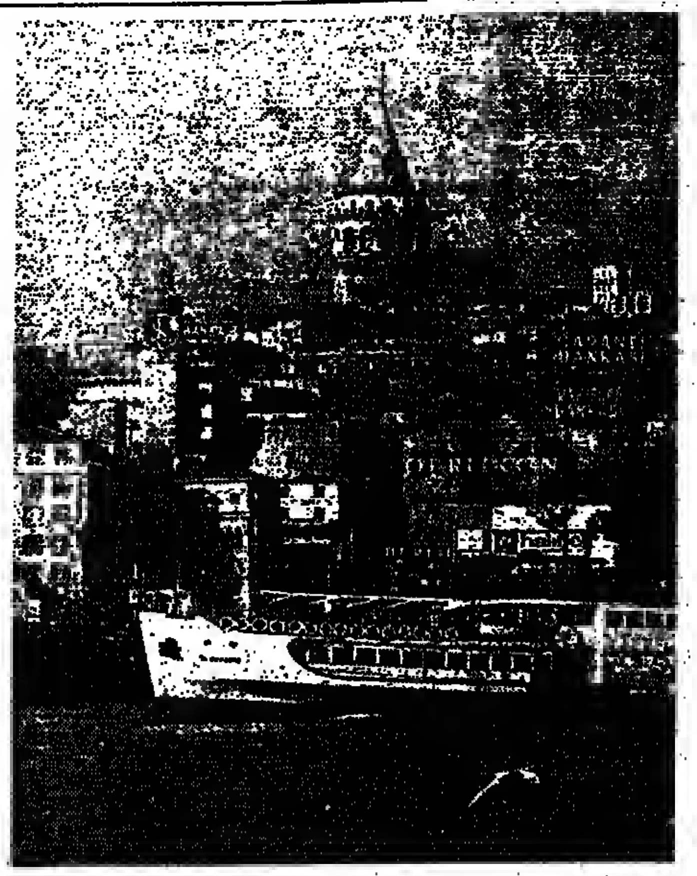
Time off

In Istanbul, for a glimpse of the country's imperial past, go to the Topkapi palace, followed by a visit to the covered bazaar. Contrast this with Galleria in Atakoy, Turkey's first Western-style shopping mall with indoor ice-skating rink, conveniently located near the airport for last minute gifts. For a relaxing drink or two go to the Bebek hotel right on the water's edge on the Bosphorous. Top this up with an exciting evening at the Galata tower watching authentic gypsies belly-dance.

By comparison, the capital is dull. You may fraternise with Ankara's more progressive and intellectual set at Gallery Nev, an art gallery-cum-bar in Ankara's most posh residential area, Gaziosmanpasa.

You may also join a stream of Turks from all over the country in paying tribute to Ataturk at the impressive mausoleum where he now rests or learn all about the Hittites at the Anatolian Civilisations museum in Ulus. If you can spare the time, go to see the fairy chimneys and underground churches in Cappadocia, only three hours' drive from Ankara.





Views of the Bosporus: ancient Istanbul, right, is the foremost tourist destination. Left: the Rumeli Hisari Fortress.

Substantial investment in tourism projects

Competition intensifies

IF ONE listens to the grumblings of tour operators in the fun and sun, full-service resort of Bodrum, 1989 was disastrous year for for Turkish tourism: high mortage rates and nnexpectedly halmly weather kept Britons at home and eway from the bars and beaches of what was fast becoming the hottest spot in the sun for the 18-30 set.

But the statistics do not reflect the mood of doom and gloom. Although growth levels in arrivals did not match the phemonenal boom of previous back-to-hack banner years, when arrivals were increasing by 50 per cent per annum, the more sober heads in the industry concede that one cannot expect such gains into infinity and that slow, sustained and steady growth is now the optimum path.

Another reason for the alleged empty heds and har stools in Bodrum (and elsewhere in the country) is that there are suddenly so many of them; supply, while not outstripping demand, has now almost caught up with it.

Tour operators and hotel owners, who used to count on close to 100 per cent occupancy, now must compete, deliver promised services, and keep prices down – an altogether happy state of affairs for future travellers to Turkey.

Arrivals in the first eight months of this year were np to an all-time high of three million, topping last year's record of 2.8m during the same Jannary to August period. Receipts were also up accordingly, representing \$1.206bn over the first three quarters in 1989, up from \$1.178bn over the same period in 1988. The year-end total is expected to top 3.5m arrivals and \$2bn in receipts.

At present, licensed bed capacity is increasing from the 200,000 Tourism Ministry-approved units this year to 250,000 in 1990 – a five-time increase from the meager 50,000 government-approved units in 1983, the start of Turkey's remarkable rise in the travel world. And the end is hardly in sight: tourism investment certificates have increased from 892 in 1987 to 1,268 in 1988 and to 1,404 in the first quarter of this year.

Over 500 of these approved projects which represent 77,000 beds are expected to open soon, with another 758 facilities with a total capacity of 140,870 beds in the pipeline.

Still, when compared with the existing 800,000 units in neighbouring Greece, it is clear that there is still much room for expansion, especially in the area of three and four star establishments. This is particularly true of Istanbul which, with its rich heritage as the capital of first the Byzantine and then the Ottoman empire, remains the primary touristic attraction of the country, and which has emerged as an international banking and convention centre.

Responding to demand, international and local investors have initiated a number of new projects, inclnding the Meridien and Swiss Hotel groups, which are soon to vie with such success stories as the Ramada Istanbul, and such old stalwarts as the Sheraton and Hilton in the first class catagory.

Both latter chains intend expanding their operations: Hilton will soon open a second Istanbul hotel, with two others under construction in Izmir and Mersin; the Ankara Hilton, which opened in 1989, is soon to see competition from a neighboring Sheraton which is also adding Antalya to the list of its establishments in the country.

Construction along Turkey's increasingly popular 'Riviera,' the coastal area starting at Ephesus/Kusadasi south of Izmir on the Aegean coast and stretching to Alanya east of Antalya on the Turkish Mediterranean, meanwhile, goes on unabated, with private firms involved in everything from holiday villages to proposed travelling clinics and even Turkey's first private airport at – where else? – Bodrum.

Accordingly, the Government is now turning its attention to the development of infrastructure in order to cope with the best-left-unseen aspects of the trade: waste water and garbage, not to mention the environment on a macro-level.

To address the issue, the Ministry of Tourism, backed by a \$150m World Bank loan, is currently planning a \$300m infrastructural development scheme, with the master plan for the project to be prepared by the local GKW/Suyapi consortium.

One heart-warming success story has already been realised: three long stretches of pristine beach along the Mediterranean at Anamur, Patara and Dalyan/Kycegiz which are frequented by giant loggerhead turtles have been placed off-limits to physical development – the 'bright' lights of discos near the beach would distract the new born turtles, and turn them away from the shimmering sea to their doom on the dance floor.

Thomas Goltz